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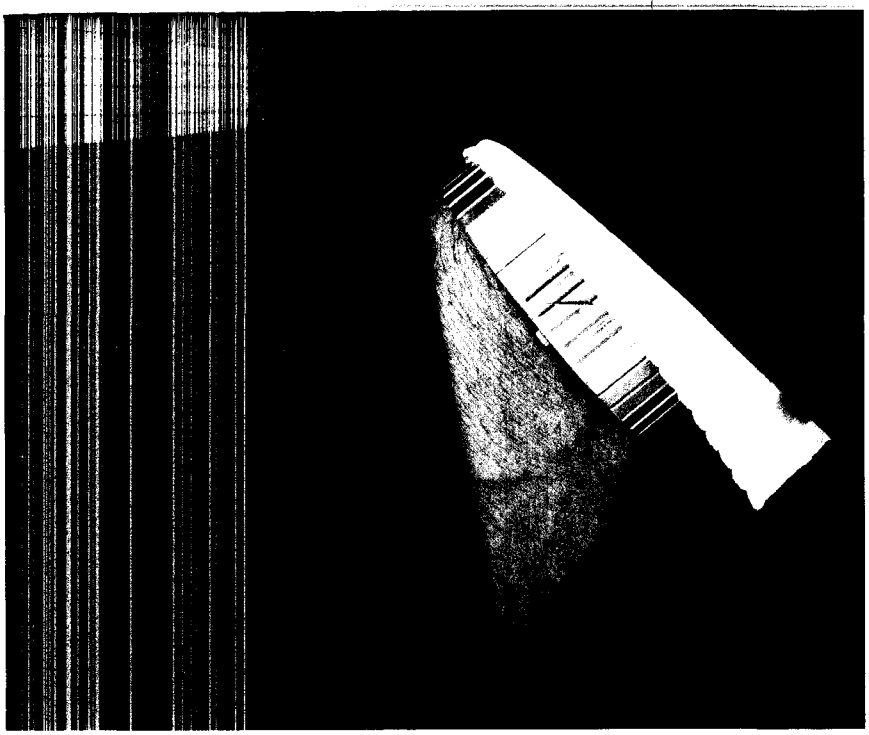

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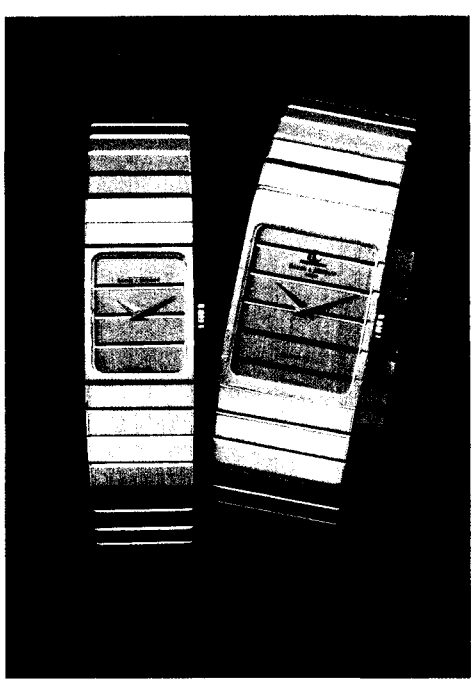

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The Optimum Shape

Researchers at the General Motors Research Laboratories have developed the first integrated system for computer design of mechanical parts with minimum mass. Optimal Shape Generation automatically optimizes the component shape in a single computer run.

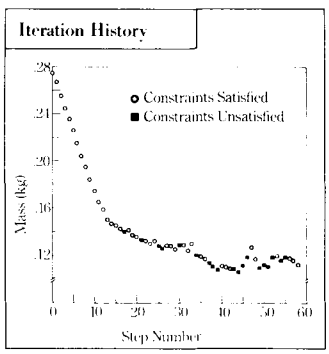
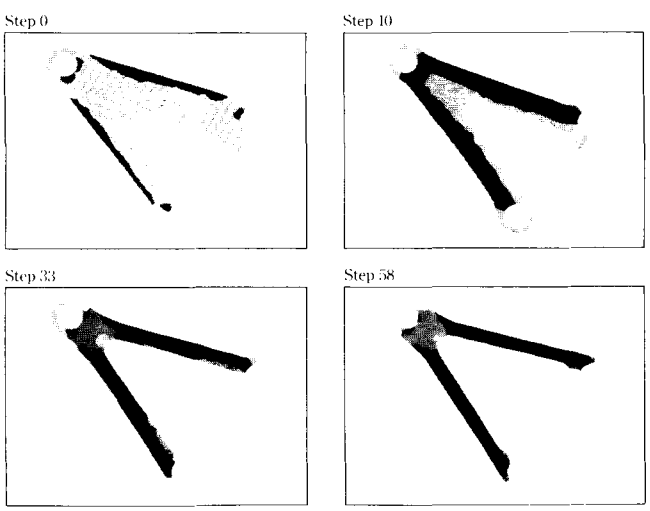


Figure 1: Decreasing mass plotted as a function of design iterations for the component shown in Figure 2.

Figure 2: Black-and-white photographs of shapes which appear in color on the CRT screen. Increasing darkness indicates increasing stress levels within the design limits.



COMPUTER-AIDED design systems automate the processes of generating geometric data and engineering drawings of parts, but they do not determine whether these parts meet structural performance requirements. In an ongoing research project at the General Motors Research Laboratories, a system has been developed that automatically ensures that the design meets structural performance constraints. More important, Optimal Shape Generation provides the component shape with the minimum mass capable of satisfying structural demands in a single computer run, without requiring human interaction with the machine.

In the last two decades, extensive research has been done in the area of computer design of structural components. Most of this work has focused on individual aspects of the process. Drs. Jim Bennett and Mark Botkin have succeeded in integrating the process from description of the model through convergence to the optimum solution.

Conventional systems continue distinctions characteristic of age-old "build and test" methods by separating the tasks of design generation and design analysis. Typically, a "designer" uses one computer system to produce engineering drawings of a given part. The task then shifts to an "evaluator" who creates a mathematical model with which to test the design on another computer system. The evaluator determines only whether or not the design meets the requirements. A lengthy interaction between the designer and the evaluator is required to optimize the design. Optimal Shape Generation integrates the process from design generation through design optimization. The system can generate the mathematical model from the design data as the shape changes without requiring additional input, thereby turning the process from a multiperson, multimachine operation into a one-person, one-machine operation.

Since there is no interaction beyond the initial input, a flexible description of the problem is crucial to effective use of the system. The researchers responded to this challenge by developing a geometric format based on a parametric description of the boundary. Defining the problem with geometric data is desirable because it describes the shape of the part in a

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form directly suitable for conceptual visualization.

Because the boundary geometric description must be transformed into an analysis model not once but several times, some type of automatic finite element mesh generation is required. The researchers adapted a mesh generation technique which divides a closed region into triangular elements based on a discrete description of the boundary. The sizes of the elements of the mesh are determined by a characteristic length selected for each problem and are related to the need for accurately describing the geometry. Automatic triangulation is used to create a set of connectivities for the discrete points placed uniformly throughout the part's interior with approximately the same density as the boundary points. The combination of boundary data description and automatic mesh generation permits the system to accommodate major changes in shape from the initial design.

ADEQUACY of the triangular meshes to calculate accurate stress levels was next addressed by the development of an adaptive mesh refinement scheme. By evaluating the solution for the uniform mesh created by the choice of characteristic length and identifying areas where the strain energy density changes rapidly, the system selects the areas of the mesh that require mesh refinement. These refinements can take the form of either adding elements in the area to be refined or increasing the order of the finite element polynomial interpolation. The former approach has been taken, because it can be implemented automatically and does not require the formulation of new finite elements.

The culmination of the process introduces an optimization routine which directs the design toward a minimum mass configuration. A mathematical optimization technique is used to change the design to that shape giving minimum mass within the structural constraints. This optimization technique is based upon a sequential first-order Taylor series approximation of the constraints and a feasible directions solution of the problem. Periodic mesh refinements are performed throughout the optimization, since the design is continually changing, and the system must predict the stresses and the behavior of the constraints as the design changes.

"By taking an integrated approach," says Dr. Bennett, "we're able to combine the objectives of reducing the mass of the material and meeting structural performance requirements in a single automatic system."

"We expect," adds Dr. Botkin, "that in the future this technique will become the standard way of designing structural components."

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MARK OF EXCELLENCE

THE MEN BEHIND THE WORK

Drs. Jim Bennett and Mark Botkin are members of the Engineering Mechanics Department at the General Motors Research Laboratories.

Dr. Bennett holds the title of Assistant Department Head. He attended the University of Michigan as an undergraduate and received his graduate degrees from the same institution in the field of aerospace engineering. His Ph.D. thesis concerned non-linear vibrations. Before coming to General Motors in 1973, he taught aeronautical and astronautical engineering at the University of Illinois.

Dr. Botkin is a Staff Research Engineer. He received his undergraduate and graduate degrees from the University of Missouri at Rolla. His graduate work was in the field of civil engineering, and his doctoral thesis concerned structural optimization. Prior to joining General Motors in 1978, he worked for four years as a consultant to computer applications engineers.

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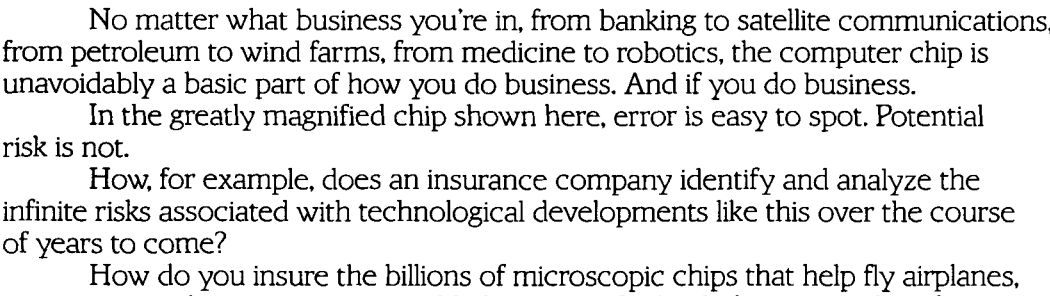

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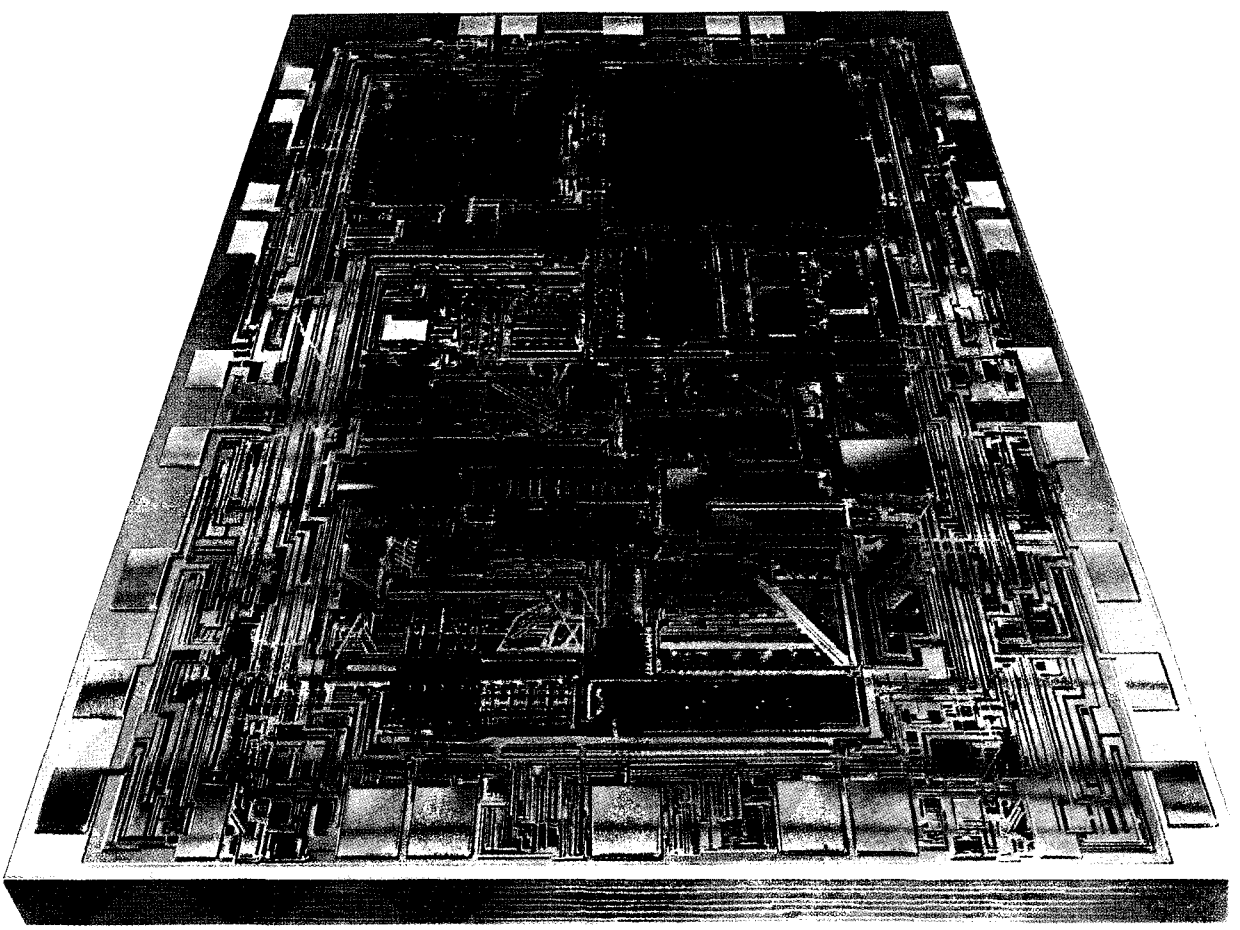

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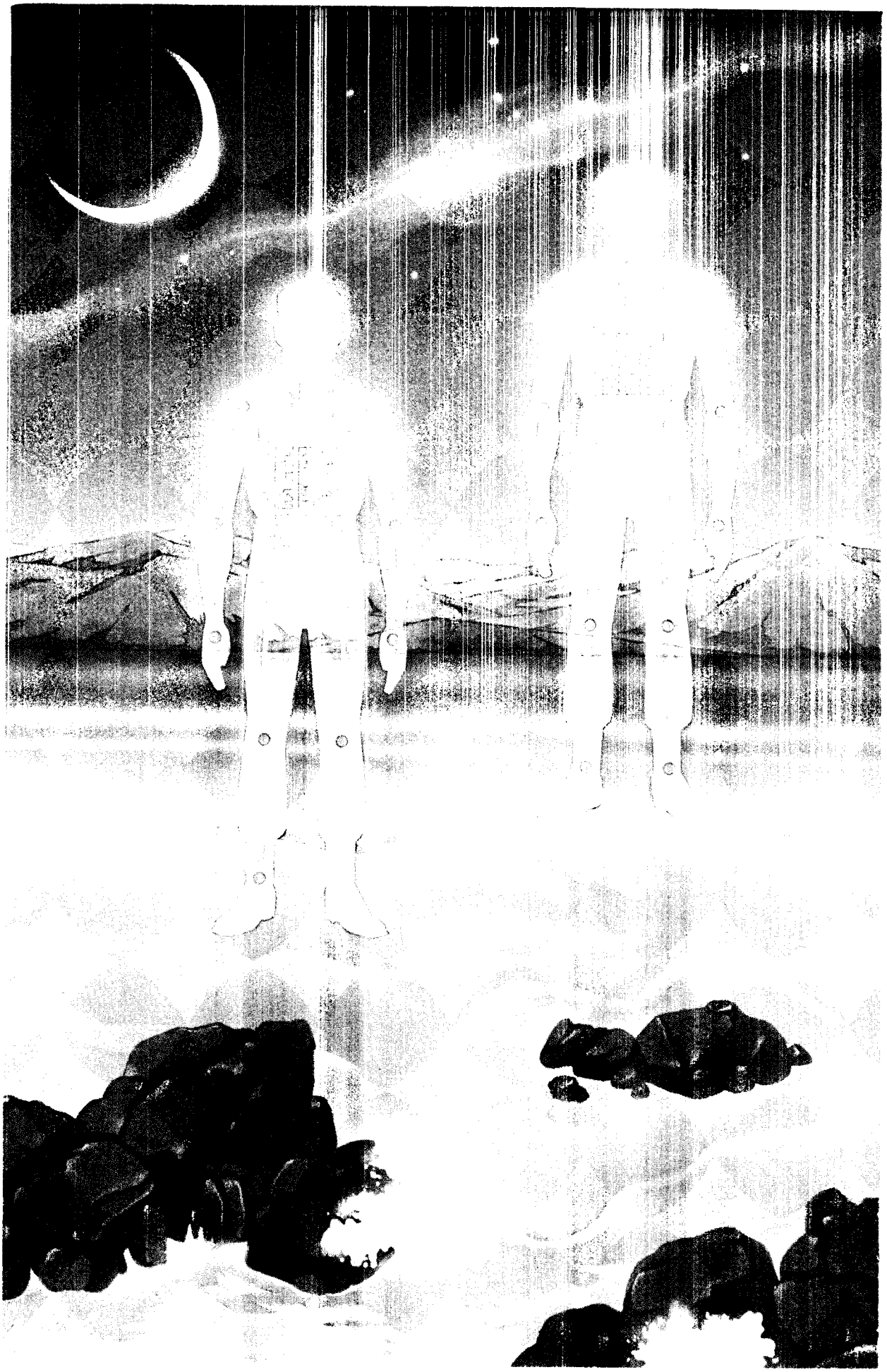

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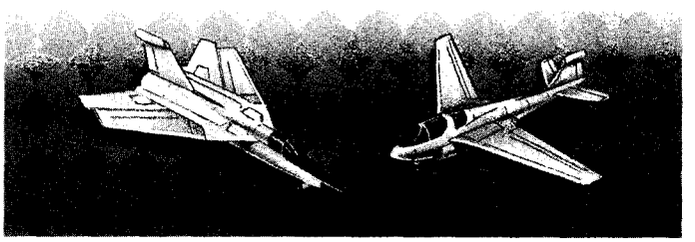

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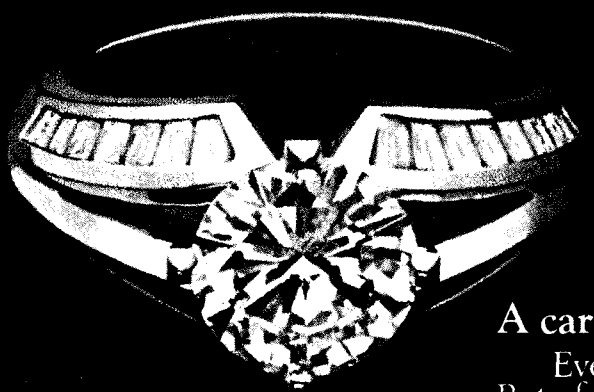

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FALL 1983

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The articles in this issue, as usual, embrace a wide variety of subjects and viewpoints. Mr. Schlesinger brings a historian's perspective to bear on what may be the most deeply ingrained tension in American foreign policy. Mr. Ullman's article on Nicaragua raises issues on which a clearer Administration policy and even a Great Debate seem to us urgently needed, while Mr. Kuczynski's current assessment of the Latin American debt problem underscores the centrality of that area as a whole. Mr. McNamara's personal statement on nuclear weapons in the European context is an important addition to the debate triggered last year.

Readers will note that we have four articles on international economic matters, a subject area in which our reader survey last winter indicated especially strong interest. In particular, the retrospective view of the last 50 years by William Diebold reflects his standing as mentor and charter member of the guild of world-class economists. His contribution to this magazine has been invaluable: continuing wise advice has been matched by no less than 14 individual articles over the years. Happily, he is following the example of his longtime colleague, John C. Campbell, and will continue to do the notes of books on economics. We are confident that his vigorous pen will not remain idle on his retirement as a Senior Fellow at the Council.

Finally, we are pleased to note that William G. Hyland has been appointed by the Council's Board of Directors to succeed the present Editor. He will assume that position in June 1984, at the close of Volume 62. Born and raised in the heartland of Missouri, Mr. Hyland has had a long and varied professional career in government; his particularly long suit on the Soviet Union recalls the background in Russian studies of the first Editor of *Foreign Affairs*, Archibald Cary Coolidge.

The articles in FOREIGN AFFAIRS *do not represent any consensus of beliefs. We do not expect that readers of the review will sympathize with all the sentiments they find there, for some of our writers will flatly disagree with others; but we hold that while keeping clear of mere vagaries* FOREIGN AFFAIRS *can do more to inform American public opinion by a broad hospitality to divergent ideas than it can by identifying itself with one school. It does not accept responsibility for the views expressed in any article, signed or unsigned, which appears in its pages. What it does accept is the responsibility for giving them a chance to appear there.* The Editors.

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Arthur Schlesinger, Jr.

FOREIGN POLICY AND THE AMERICAN CHARACTER

Foreign policy is the face a nation wears to the world. The minimal motive is the same for all states—the protection of national integrity and interest. But the manner in which a state practices foreign policy is greatly affected by national peculiarities.

The United States is not exempt from these unimpeachable generalities. As Henry James, an early American specialist in international relations, once put it, "It's a complex fate, being an American." The American character is indeed filled with contradiction and paradox. So, in consequence, is American foreign policy. No paradox is more persistent than the historic tension in the American soul between an addiction to experiment and a susceptibility to ideology.

On the one hand, Americans are famous for being a practical people, preferring fact to theory, finding the meaning of propositions in results, regarding trial and error, not deductive logic, as the path to truth. "In no country in the civilized world," wrote Tocqueville, "is less attention paid to philosophy than in the United States." And, when Americans developed a distinctive philosophy, it was of course the pragmatism of William James. James perceived a pluralist universe where men can discover partial and limited truths—truths that work for them—but where no one can gain an absolute grip on ultimate truth. He stood against monism—the notion that the world can be understood from a single point of view. He stood against the assumption that all virtuous principles are in the end reconcilable; against faith in a single body of unified dogma; in short, against the delusions of ideology.

Yet at the same time that Americans live by experiment, they also show a recurrent vulnerability to spacious generalities. This is not altogether surprising. The American colonists, after all, were nurtured on one of the most profound and exacting ideologies ever devised—the theology of Calvin—and they passed on to their

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Arthur Schlesinger, Jr., Albert Schweitzer Professor in the Humanities at the City University of New York, is working on a book about Franklin D. Roosevelt and the coming of the Second World War. This article is adapted from the Cyril Foster Lecture delivered at Oxford University in May 1983. Copyright © 1983 by Arthur Schlesinger, Jr.

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descendants a certain relish in system and abstraction. The ideas of the Americans, as Tocqueville found in the 1830s, "are all either extremely minute and clear or extremely general and vague." The Calvinist cast of mind saw America as the redeemer nation. It expressed itself in the eighteenth century in Jonathan Edwards' theology of Providence, in the nineteenth century in John Calhoun's theology of slavery, in the twentieth century in Woodrow Wilson's vision of world order and in John Foster Dulles' summons to a holy war against godless communism. The propensity to ideology explains too why the theory of American internal society as expounded by some Americans—the theory of America as the triumph of immaculate and sanctified private enterprise—differs so sharply from the reality of continual government intervention in economic life.

This tension between experiment and ideology offers one way of looking at the American experience in world affairs. The Founding Fathers were hard-headed and clear-sighted men. They believed that states responded to specific national interests—and were morally obliged to do so, if there were to be regularity and predictability in international affairs. "No nation," observed George Washington, "is to be trusted farther than it is bound by its interest." They understood, moreover, that the preservation of American independence depended on the maintenance of a balance of power in Europe. "It never could be our interest," wrote John Adams, "to unite with France in the destruction of England . . . . On the other hand, it could never be our duty to unite with Britain in too great a humiliation of France."

The Jeffersonians, though sentimentally inclined to favor France against Britain, were equally hard-headed when national interest intervened. "We shall so take our distance between the two rival nations," wrote Thomas Jefferson in 1802, "as, remaining disengaged till necessity compels us, we may haul finally to the enemy of that which shall make it necessary." And in 1814, with Britain waging war against America as well as France, indeed seven months before the British captured Washington and burned the White House, Jefferson watched Napoleon's European victories with concern. "It cannot be to our interest that all Europe should be reduced to a single monarchy," he wrote. "Were he again advanced to Moscow, I should again wish him such disaster as would prevent his reaching Petersburg. And were the consequences even to be the longer continuance of our war, I would rather meet them than see the whole force of Europe wielded by a single hand." In these arresting words Jefferson defined the national interest that explains

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American intervention in two world wars as well as in the present cold war.

I do not imply that the Founding Fathers were devoid of any belief in a special mission for the United States. It was precisely to protect that mission that they wished to preserve the balance of power in Europe. They hoped that the American experiment would in time redeem the world. But they did not suppose that the young republic had attained, in Alexander Hamilton's words, "an exemption from the imperfections, weaknesses, and evils incident to society in every shape." Hamilton urged his countrymen instead "to adopt as a practical maxim for the direction of our political conduct that we, as well as the other inhabitants of the globe, are yet remote from the happy empire of perfect wisdom and perfect virtue." If America was to redeem the world, it would do so by perfecting its own institutions, not by moving into other countries and setting things straight; by example, not by intervention. "She goes not abroad in search of monsters to destroy," said John Quincy Adams. If ever she did, "The fundamental maxims of her policy would insensibly change from liberty to force . . . . She might become the dictatress of the world. She would no longer be the ruler of her own spirit."

The realism of the revolutionary generation was founded in the harsh requirements of a struggle for precarious independence. It was founded too in rather pessimistic conceptions of human nature and history. History taught the Founding Fathers to see the American republic itself as a risky and doubtful experiment. And the idea of experiment, by directing attention to the relation between actions and consequences in specific contexts, implied a historical approach to public affairs. Yet—another paradox—the role of the Founding Fathers was to annul history for their descendants. "We have it in our power," cried Tom Paine, "to begin the world all over again"—a proposition quoted, by the way, by President Reagan in his recent address to the evangelicals at Orlando. Once the Founders had done their work, history could start again on a new foundation and in American terms.

So the process began of an American withdrawal from secular history—or rather of an American entry into what Dean Acheson once called "a cocoon of history." This process was sustained by the fact that the men and women who populated the new world were in revolt against their own histories. It was sustained, too, by the simultaneous withdrawal of the American state from the power embroilments of the old world. The realism of the revolutionary generation faded away in the century from Waterloo to Sarajevo

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when the European balance of power was maintained without American intervention. As the historical consciousness thinned out, ideology flowed into the vacuum. The very idea of power politics became repellent. The exemption from the European scramble nourished the myth of American innocence and the doctrine of American righteousness.

When America rejoined the scramble in 1898, it did so with an exalted conviction of its destiny as a redeemer nation, and no longer by example alone. The realist tradition by no means vanished. So William James protested the messianic delusion: "Angelic impulses and predatory lusts divide our heart exactly as they divide the heart of other countries." But this was for a season a minority view. When the United States entered the First World War for traditional balance-of-power reasons, Woodrow Wilson could not bring himself to admit the national interest in preventing the whole force of Europe from being wielded by a single hand. Instead he made himself the prophet of a world beyond power politics where the bad old balance of power would give way to a radiant new community of power. And he insisted on the providential appointment of the United States as "the only idealistic nation in the world," endowed with "the infinite privilege of fulfilling her destiny and saving the world."

So two strains have competed for the control of American foreign policy: one empirical, the other dogmatic; one viewing the world in the perspective of history, the other in the perspective of ideology; one supposing that the United States is not entirely immune to the imperfections, weaknesses and evils incident to all societies, the other regarding the United States as indeed the happy empire of perfect wisdom and perfect virtue, commissioned to save all mankind.

This schematic account does not do justice to the obvious fact that any American President, in order to command assent for his policies, must appeal to both reality and ideology—and that, to do this effectively, Presidents must combine the two strains not only in their speeches but in their souls. Franklin Roosevelt, the disciple at once of Admiral Mahan and of President Wilson, was supreme in marrying national interest to idealistic hope, though in the crunch interest always came first. Most postwar Presidents—Truman, Eisenhower, Kennedy, even Nixon—shared a recognition, alert or grudging, of the priority of power politics over ideology.

The competition between realism and ideology was complicated, however, by two developments: by the fact that the United States in the twentieth century became a great power; and by the fact that

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the balance of power in the twentieth century faced the gravest possible threats. There was in 1940 a very real monster to destroy and after 1945 another very real monster to contain. These threats demanded U. S. intervention abroad and brought the tradition of isolationism to a permanent end. But the growth of American power also confirmed the messianism of those who believed in America's divine appointment. And the fact that there were a couple of real monsters roaming the world encouraged a fearful tendency to look everywhere for new monsters to destroy.

II

The present Administration represents a mighty comeback of the messianic approach to foreign policy. "I have always believed," President Reagan said last November, "that this anointed land was set apart in an uncommon way, that a divine plan placed this great continent here between the oceans to be found by people from every corner of the earth who had a special love of faith and freedom." The Reagan Administration sees the world through the prism not of history but of ideology. The convictions that presently guide American foreign policy are twofold: that the United States is infinitely virtuous and that the Soviet Union is infinitely wicked.

The Soviet Union, Mr. Reagan has proclaimed, is an "evil empire," "the focus of evil in the modern world." Everything follows by deductive logic from this premise. The world struggle is "between right and wrong and good and evil." When there is evil loose in the world, "we are enjoined by scripture and the Lord Jesus to oppose it with all our might." Negotiation with evil is futile if not dangerous. The Soviet Union is forever deceitful and treacherous. The Soviet leaders erect lying and cheating into a philosophy and are personally responsible for the world's manifold ills. "Let us not delude ourselves," Mr. Reagan has said. "The Soviet Union underlies all the unrest that is going on. If they weren't engaged in this game of dominos, there wouldn't be any hot spots in the world." Not content with the orchestration of crisis in the Third World, the Soviet Union, once it acquires a certain margin of numerical superiority in warheads, can well be expected to launch a surprise nuclear attack on American targets. Safety lies only in the establishment of unequivocal military dominance by the United States, including a first-strike capability. If this means a nuclear arms race, that is Moscow's fault, not Washington's, because America's heart is pure. In any event nuclear weapons are usable and nuclear wars are winnable. We shall prevail.

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The seizure of foreign policy by a boarding-party of ideologues invites a host of dangers. Most of all you tend to get things wrong. Where the empirical approach sees the present as emerging from the past and preparing for the future, ideology is counter-historical. Its besetting sin is to substitute models for reality. No doubt the construction of models—logically reticulated, general principles leading inexorably to particular outcomes—is an exercise that may help in the delineation of problems—but not when artificial constructs are mistaken for descriptions of the real world. This is what Alfred North Whitehead called "the fallacy of misplaced concreteness," and it explains why ideology infallibly gets statesmen into trouble, later if not sooner. The error of ideology is to prefer essence to existence, and the result, however gratifying logically and psychologically, undermines the reality principle itself.

Ideology withdraws problems from the turbulent stream of change and treats them in splendid abstraction from the whirl and contingency of life. So ideology portrays the Soviet Union as an unalterable monolith, immune to historical vicissitude and permutation, its behavior determined by immutable logic, the same yesterday, today and tomorrow; Sunday, Monday and always. We are forever in 1950, with a crazed Stalin reigning in the Kremlin and commanding an obedient network of communist parties and agents around the planet. In the light of ideology, the Soviet Union becomes a fanatic state carrying out with implacable zeal and cunning a master plan of world dominion.

Perhaps this is all so. But others may see rather a weary, dreary country filled with cynicism and corruption, beset by insuperable problems at home and abroad, lurching uncertainly from crisis to crisis. The Soviet leadership, three quarters of a century after the glorious Bolshevik revolution, cannot provide the people with elementary items of consumer goods. It cannot rely on the honesty of bureaucrats or the loyalty of scientists and writers. It confronts difficult ethnic challenges as the non-Russians in the Soviet Union, so miserably underrepresented in the organs of power, begin to outnumber the Russians. Every second child born this year in the Soviet Union will be a Muslim. Abroad, the Soviet Union faces hostile Chinese on its eastern frontier and restless satellites on the west, while to the south the great Red Army after three and a half years still cannot defeat ragged tribesmen fighting bravely in the hills of Afghanistan.

I don't want to overdo the picture of weakness. The Soviet Union remains a powerful state, with great and cruel capacity to repress

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consumption and punish dissent and with an apparent ability to do at least one thing pretty well, which is to build nuclear missiles. But there is enough to the reality of Soviet troubles to lead even the ideologues in Washington to conceive Soviet Russia as a nation at once so robust that it threatens the world and so frail that a couple of small pushes will shove its ramshackle economy into collapse.

The Soviet Union of course is ideological too, even if its ideology has got a little shopworn and ritualistic over the long years. It too sees the enemy as unchanging and unchangeable, a permanently evil empire vitiated through eternity by the original sin of private property. Each regime, reading its adversary ideologically rather than historically, deduces act from imputed essence and attributes purpose, premeditation and plan where less besotted analysts would raise a hand for improvisation, accident, chance, ignorance, negligence and even sheer stupidity. We arrive at the predicament excellently described by Henry Kissinger: "The superpowers often behave like two heavily armed blind men feeling their way around a room, each believing himself in mortal peril from the other whom he assumes to have perfect vision . . . . Each tends to ascribe to the other a consistency, foresight, and coherence that its own experience belies. Of course, over time, even two blind men can do enormous damage to each other, not to speak of the room."

By construing every local mess as a test of global will, ideology raises stakes in situations that cannot be easily controlled and threatens to transmute limited into unlimited conflicts. Moreover, ideology, if pursued to the end, excludes the thought of accommodation or coexistence. Mr. Reagan has instructed us that we must oppose evil "with all our might." How now can we compromise with evil without losing our immortal soul? Ideology summons the true believer to a *jihad*, a crusade of extermination against the infidel.

The Russians are in no position to complain about such language. It has been more or less their own line since 1917. Reagan is simply paraphrasing Khrushchev: "We will bury you." Still the holy war has always represented a rather drastic approach to human affairs. It seems singularly unpromising in the epoch of nuclear weapons. And the irony is that, while Soviet ideology has grown tired, cynical and venal, the new American crusade is fresh and militant; and the Washington ideologues thereby present the Kremlin with an unearned and undeserved opportunity to appear reasonable and prudent. In particular, the American dash into ideology promotes a major Soviet objective, the turning away of Western Europe from

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the alliance with the United States.

Having suggested the current domination of American foreign policy by ideology, let me add that this domination is far from complete. Mr. Reagan's world view is not necessarily shared even by all members of his own Administration. It is definitely not shared by the Republican leadership in Congress. In general, it has been more vigorously translated into rhetoric than into policy. The suspicion has even arisen that Mr. Reagan's more impassioned ideological flights are only, in Wendell Willkie's old phrase, "campaign oratory," pap for right-wing zealots to conceal the Administration's covert creep to the center in domestic affairs. And the prospect of a presidential election next year creates a compelling political need for the Administration to attend to public opinion—a concern that may be a force for restraint in Central America and that could conceivably drive the Administration into arms control negotiations well before November 1984. Still, Mr. Reagan is not a cynical man, and, whatever the tactical function of his speeches, they must also in some sense express sincere convictions.

The greater restraint on ideology comes from the nature of foreign policy itself. The realism of the Founding Fathers sprang from the ineluctable character of international relations. National interest in the end must set limits on messianic passions. This fact explains the Administration's tendency to march up the ideological hill and then march down again, as in the case of the pipeline embargo. For the United States does not have the power, even if it had the wisdom, to achieve great objectives in the world by itself. Because this is so, a responsible foreign policy requires the cooperation of allies, and allies therefore have it within their power to rein in American messianism.

The pipeline embargo is only one example of the modification of ideology by interest. Ideology favors a blank check for Menachem Begin in Israel, but interest argues for the comprehensive approach to a Middle Eastern settlement that Reagan set forth on September 1, 1982, in the most impressive speech of his presidency. Ideology calls for the support of Taiwan at the expense of mainland China. Interest argues against policies tending to unite Chinese and Soviet communism. Ideology calls for the support of South Africa against black Africa. Interest argues against a course that leaves black Africa no friends but the Soviet Union. Ideology calls for the excommunication of socialist regimes. Interest sees benefits in cheerful relations with France, Spain, Italy, Portugal, Greece and Sweden. Ideology calls for chastisement of the debtor nations in the Third World. Interest leads to an additional $8.4-billion contribution to the International Monetary Fund.

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III

Yet there remain sectors of policy where ideology still holds sway. One, for the season at least, is Central America. No one can be too sure over the longer run because the Administration has marched up and down this particular hill more than once in the last two years. During the vicariate of General Haig, insurgency in Central America was deemed a major Soviet challenge demanding a mighty American response. Then, in the first tranquilizing days of Secretary Schultz, the impression was allowed to spread that perhaps the troubles had ample local origins and, despite allegations of extracontinental instigation, might be amenable to local remedies. Subsequently Secretary Shultz caught the ideological flu, and by mid-1983 we were back at the global test of will.

Unquestionably the United States is facing tough problems in Central America. Nor does it meet the problems to observe that they are, in some part, of American creation. Twenty years ago the Alliance for Progress set out to deal with poverty and oligarchy in Central America. But the Alliance changed its character after the death of President Kennedy, and American policy abandoned concern with social change. When revolution predictably erupted in Central America, ideology rejected the notion of local origins and decreed that the Russians were back at their old game of dominos.

Ideology, it should be noted, offers a field day for self-fulfilling prophecies. If you shape rhetoric and policy to what you regard as a predestined result, chances are that you will get the result you predestine. Having decided a priori that the Nicaraguan revolution was a Soviet-Cuban conspiracy, Washington gave the Sandinistas little alternative but to seek support from the Cubans and Russians. The French wanted to sell Nicaragua arms and send in a military mission. Washington, instead of welcoming a democratic presence that would have been reliably alert to Soviet deviltry, exploded in indignation. When the CIA does its best to overthrow the government in Managua, we express unseemly shock that this government dare take measures to defend itself. Maybe it would have happened anyway, but the ideological policy makes insurgent anti-Americanism inevitable.

The present Washington disposition is to raise the stakes and to militarize the remedy. We are trying to provide the government of El Salvador with sufficient military aid to defeat the insurgency and to provide the insurgency in Nicaragua with sufficient military aid to defeat the government. If we don't act to stop Marxism in Central America, the argument runs, dominos will topple, and the Soviet Union will establish a bridgehead in the center of the

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Western Hemisphere. "Our credibility would collapse," Mr. Reagan has said, "our alliances would crumble, and the safety of our homeland would be in jeopardy." In April 1983 he denied any "thought of sending American combat troops to Central America." By June the thought had occurred, and he now cautioned, "Presidents never say never."

Other views are possible. The historian is bound to note that unilateral military action by the United States in Latin America is nearly always a mistake. Another by-product of ideology, along with the self-fulfilling prophecy, is the conviction that the anointed country, whether the United States these days or the Soviet Union in all days, understands the interests of other countries better than they understand their own interests. So in 1967 President Johnson sent Clark Clifford on an Asian tour, charging him to get the states of the South East Asia Treaty Organization to increase their contributions to the forces fighting communism in Vietnam. Clifford was astonished to discover that other Asian countries, though considerably more exposed to the danger, took it less tragically than the United States did and saw no need to increase their contributions. When he thereafter became Secretary of Defense, Clifford did his best to wind down American participation in the war.

If a Marxist Nicaragua (population 2.7 million) or El Salvador (population 4.5 million) is a threat to the Hemisphere, it is a more dire threat to Mexico, to Costa Rica, to Panama, to Venezuela, to Colombia than it is to the United States. These nations are closer to the scene and more knowledgeable about it; they are a good deal more vulnerable politically, economically and militarily than the United States; and they are governed by men just as determined as those in Washington to resist their own overthrow. When Latin American countries don't see the threat as apocalyptically as we do, only ideology can conclude with divine assurance that they are wrong and we are right. Are we really so certain that we understand *their* world better than they do?

In any event, ideology is a sure formula for hypocrisy, if not for disaster. Mr. Reagan says righteously that we will not "protect the Nicaraguan government from the anger of its own people." A fine sentiment—but why does it not apply equally to the government of El Salvador? Why do we condemn Nicaragua for postponing elections until 1985 while we condone Chile, which postpones elections till 1989? Would the Administration display the same solicitude for elections and rights in Nicaragua if the Somozas were

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still running things?

Ideology insists on the inflation of local troubles into global crises. National interest would emphasize the indispensability of working with Latin Americans who know the territory far better than we do and without whose support we cannot succeed. Let Mexico, Venezuela, Colombia and Panama—the so-called Contadora Group—take the lead, and back them to the hilt. Only if all agree on the nature of the response will intervention do the United States more good than harm in the Hemisphere. If it is too late for a negotiated settlement and our Latin friends reject military intervention, then we may have to resign ourselves to turmoil in Central America for some time to come—turmoil beyond our power to correct and beyond our wisdom to cure.

IV

Another sector where ideology still controls policy in Washington is, alas, the most grave and menacing of all—the nuclear arms race. It is in this field that the substitution of models for reality has the most baneful effect. War games these days are played by general staffs with such intensity that they come to be taken not as speculations but as predictions. The higher metaphysics of deterrence, by concentrating on the most remote contingencies, such as a Soviet first strike against the United States or a surprise invasion of Western Europe, makes such improbable events suddenly the governing force in budgetary, weapons and deployment decisions. History shows the Soviet Union to be generally cautious about risking direct military encounters with the United States; but ideology abolishes history. Reality evaporates in the hallucinatory world where strategic theologians calculate how many warheads can be balanced on the head of a pin. Little seems to me more dangerous than the current fantasy of controlled and graduated nuclear war, with generals calibrating nuclear escalation like grand masters at the chessboard. Let us not be bamboozled by models. Once the nuclear threshold is breached, the game is over.

I do not dismiss the Soviet Union as a military threat. We have noted that one thing Russia apparently does well is to build nuclear missiles. But we must keep things in proportion. Ideology, here as elsewhere, encourages exaggeration. Moreover, the professional duty of generals is to guarantee the safety of their countries; and the professional instinct of generals is to demand enough to meet every conceivable contingency. As old Lord Salisbury once wrote, "If you believe the doctors, nothing is wholesome; if you believe

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the theologians, nothing is innocent; if you believe the soldiers, nothing is safe." Like ideology, defense budgets need ever more menacing enemies.

In Washington Pentagon officials take masochistic pleasure at regular intervals in declaring that the Soviet Union is now stronger than the United States. These recurrent Pentagon panics, ably recalled by Robert H. Johnson in the Spring 1983 issue of this journal, range from the "missile gap," promulgated by the Gaither Report 25 years ago, to the "window of vulnerability," announced by Secretary of Defense Weinberger in 1981 and slammed shut by the Scowcroft Commission in 1983. One doubts that defense officials really believe their own lamentations; at least, I have never heard any of them offering to trade in the American for the Soviet defense establishment. When asked in Congress recently whether he would exchange places with his Soviet counterpart, the chairman of the American Joint Chiefs of Staff replied succinctly, "Not on your life." The ideologues achieve their dire effects by selective counting—by comparing theater nuclear weapons, for example, and omitting American superiority in the invulnerable sea-based deterrent. I would not take the lamentations too seriously, especially around budget time.

The irony is that the Pentagon and the Soviet Defense Ministry prosper symbiotically. There is no greater racket in the world today than generals claiming the other side is ahead in order to get bigger budgets for themselves. This tacit collusion, based on a common vested interest in crisis, remains a major obstacle in the search for peace. As President Kennedy remarked to Norman Cousins, the editor of the *Saturday Review*, in the spring of 1963, "Mr. Khrushchev and I occupy approximately the same political positions inside our governments. He would like to prevent a nuclear war but is under severe pressure from his hard-line crowd, which interprets every move in that direction as appeasement. I've got similar problems . . . . The hard-liners in the Soviet Union and the United States feed on one another."

The existence of Soviet military might obviously requires effective counterbalance. It requires nuclear deterrence capable of retaliation against a first strike, and this the West has. It also requires conventional force capable of discouraging Soviet aspirations in Europe, and this the West may presently lack. The need is to remove European defense from the delusion of rescue through limited nuclear war. The European democracies must understand that reliance on the bomb to save Europe no longer makes sense in the age of nuclear stand-off. However destructive conventional war

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can be in modern times, it is infinitely less destructive than nuclear war would be. And the sure way to make the improbability of a Soviet attack across rebellious satellites on Western Europe even more improbable is to leave no doubt that the costs, even without nuclear response, would be intolerably high. This lies within the power of the European democracies to do.

V

But what of the bomb itself? For we live today in a situation without precedent—a situation that transcends all history and threatens the end of history. I must confess that I have come late to this apocalyptic view of the future. To set limits on the adventures of the human mind has always seemed—still seems—the ultimate heresy, the denial of humanity itself. But we always recognized that freedom involves risk, and the free mind in our time has led us to the edge of the Faustian abyss. "Man has mounted science, and is now run away with," Henry Adams wrote more than a century ago. "Some day science may have the existence of mankind in its power, and the human race commit suicide by blowing up the world."

I had always supposed that, with the nuclear genie out of the bottle, the prospect of the suicide of the human race would have a sobering effect on those who possessed the tragic power to initiate nuclear war. For most of the nuclear age this supposition has been roughly true. Statesmen have generally understood, as President Kennedy said in 1961, "Mankind must put an end to war or war will put an end to mankind." I saw how after the Cuban missile crisis a shaken Kennedy—and a shaken Khrushchev, too—moved swiftly toward a ban on nuclear testing and a systematic reduction of international acrimony.

I no longer have much confidence in the admonitory effect of the possession of nuclear weapons. The curse of ideology is that as it impoverishes our sense of reality, it impoverishes our imagination, too. It enfeebles our capacity to visualize the Doomsday horror. It inhibits us from confronting the awful possibility we can no longer deny: the extermination of sentient life on this planet.

Under the hypnosis of doctrine, ideologues in Washington today plainly see an unlimited nuclear arms race not as an appalling threat to the survival of humanity, but simply as a fine way to do the Russians in. Either they will try to keep up with us, which will wreck their economy, or they will fail to keep up, which will give us the decisive military advantage. To have an arms control agreement, they believe, would be to renounce our most potent weapon against the empire of evil.

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I continue to find it hard to suppose that either superpower would deliberately embark on nuclear war *ab initio*. But it is not hard to foresee a nuclear overreaction to the frustration or embarrassment of defeat in conventional warfare. It is still easier, with 50,000 warheads piling up in the hands of the superpowers and heaven knows how many more scattered or hidden or incipient in other hands, to foresee nuclear war precipitated by terrorists, or by madness, or by accident, or by misreading the flashes on a radar screen.

The stake is too great to permit this horror to grow. For the stake is supreme: it is the fate of humanity itself. Let me say at once that the answer to the nightmare cannot conceivably be unilateral nuclear disarmament. The likely result of unilateral nuclear disarmament by the West would not be to prompt the Soviet leadership to do likewise but to place the democratic world at the mercy of Soviet communism. History offers abundant proof that mercy is not a salient characteristic of any communist regime.

Neither the arms race nor unilateral disarmament therefore holds out hope. What we must do rather is to revive the vanishing art of diplomacy. American officials these days like to strike Churchillian poses. They remind one of Mark Twain's response when his wife tried to cure him of swearing by loosing a string of oaths herself: "You got the words right, Livy, but you don't know the tune." Our road-company Churchills lack one of the things that made Churchill great: his power of historical discrimination.

"Those who are prone by temperament and character," Churchill wrote in *The Gathering Storm*, "to seek sharp and clear-cut solutions of difficult and obscure problems, who are ready to fight whenever some challenge comes from a foreign Power, have not always been right. On the other hand, those whose inclination is . . . to seek patiently and faithfully for peaceful compromise are not always wrong. On the contrary, in the majority of instances they may be right, not only morally but from a practical standpoint." So, in the spirit of Churchill, let us not prematurely abandon the quest for peaceful compromise.

The reciprocal and verifiable nuclear freeze on the production, testing and deployment of nuclear weapons and delivery vehicles is backed today, according to polls, by more than 80 percent of Americans. The freeze is the most promising beginning, or so it seems to me. More must come. A joint Soviet-NATO command post, where each side could monitor the other side's radar screens and to which all war rumors would go for resolution, would do much to reduce the chances of accidental nuclear war. Deep cuts in

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nuclear stockpiles must follow, perhaps by each superpower delivering an equal number of nuclear weapons of its own choice for destruction by an international authority, a procedure that would minimize the theoretically destabilizing effect of reduction by fixed categories. Mankind has no choice but to find ways to crawl back from the edge of the Faustian abyss and to move toward the extinction of the nuclear race; better this, with all its difficulties, than the extinction of the human race.

VI

What the world needs to bring this about is above all deliverance from ideology. This is not to suggest for a moment any symmetry between the United States and the Soviet Union. In the United States, ideology is a lurking susceptibility, a periodic fling, fooling some of the people some of the time but profoundly alien to the Constitution and to the national spirit. Washington's current ideological commotion is the result, not of popular demand or mandate, but of the superficial fact that in 1980 the voters, unable to abide the thought of four more years of what they had, had Reagan as the only practical alternative.

In the Soviet Union ideology remains the heart of the matter. It is not a susceptibility but a compulsion, inscribed in sacred texts and enforced by all the brutal machinery of a still vicious police state. Yet even in the Soviet Union one senses an erosion of the old ideological intensity until a good deal of what remains is simply a vocabulary in which Soviet leaders are accustomed to speak. Let not a spurt of American ideologizing breathe new life into the decadent Soviet ideology, especially by legitimizing the Russian fear of an American crusade aimed at the destruction of Russian society.

In the end, ideology runs against the grain of American democracy. Popular elections, as the Founding Fathers saw long ago, supply the antidote to the fanaticism of abstract propositions. High-minded Americans have recently taken to calling for a single six-year presidential term on the ground that Presidents, not having to worry about reelection, would thereby be liberated to make decisions for the good of the republic. This assumes that the less a President takes public opinion into account, the better a President he will be—on reflection, a rather anti-democratic assumption. In the instant case, the best things Mr. Reagan has done—his belated concern about racial justice, about the environment and natural resources, about hunger, about women, about arms control—have all been under the pressure of the 1984 election. He might never have cared if he had had a single six-year term. It may well be that

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Presidents do a better job when politics requires them to respond to popular needs and concerns than they would if constitutionally empowered to ignore popular needs and concerns for the sake of ideological gratification.

Ideology is the curse of public affairs because it converts politics into a branch of theology and sacrifices human beings on the altar of abstractions. "To serene Providence," Winston Churchill wrote an American politician nearly 90 years ago, "a couple of generations of trouble and distress may seem an insignificant thing . . . . Earthly Governments, however, are unable to approach questions from the same standpoint. Which brings me to the conclusion that the duty of governments is to be first of all practical. I am for makeshifts and expediency. I would like to make the people who live on this world at the same time as I do better fed and happier generally. If incidentally I benefit posterity—so much the better—but I would not sacrifice my own generation to a principle—however high—or a truth however great."

In this humane spirit we may save not only our generation but posterity, too.

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Pedro-Pablo Kuczynski

LATIN AMERICAN DEBT: ACT TWO

There is a distinct rumble. Is it the noise of an impending second crisis of Latin American and other developing country debtors, or is it the start-up of world economic recovery, which will gradually pull lenders and borrowers alike away from the edge of a financial abyss?

In this article I will start by reviewing briefly the elements that make Latin American debt a far graver problem than the debt of developing (or socialist) countries in other areas. I will then review developments since last fall, leading to the conclusion that a serious gap now looms between the current account deficits of Latin American countries and the external financing sources needed to offset these deficits.

This statement of the problem is followed by an assessment of the general and specific requirements for action, including a review of existing proposals and my own specific suggestions. These include measures that might be taken in the near term to improve the prospects for lasting recovery. My central thesis is that the problem remains acute and that additional measures and contingency plans are urgently needed.

II

The debt problem of developing countries is largely a Latin American one. The relative size of the debt of the region is much larger than in the case of other developing areas; its composition—

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An earlier article by Mr. Kuczynski, "Latin American Debt," *Foreign Affairs*, Winter 1982/83, pp. 344–364, assessed the situation as of that time and also included extensive discussion of the actions of the borrowers and lenders, and of the economic status of various Latin American countries.

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two-thirds from commercial banks—gives it short maturities and commercial interest rates; and export earnings with which to service the debt are modest in relation to the burden of debt service. These features mean that the grave economic problems which have been facing most Latin American countries in the last year or so are unlikely to spread, at least with the same force, to other developing areas.

On the other hand, the regional concentration of the problem means that virtually all countries in Latin America and the Caribbean are viewed as one by commercial bank lenders, an attitude which has drastically cut capital inflows to the region, regardless of country differences, and thus makes the task of recovery much more difficult. The fact that the external debt has been built up over the last decade, but especially in the last four years, shows that the problem is not only a cyclical one but a longer-term one. As in a natural catastrophe, the first step is emergency action, followed later by reconstruction and recovery.

The high interest rates of 1981–82, together with the unexpected depth and duration of the international recession, which led to a sharp deterioration of the terms of trade of developing countries, were the critical factors which sparked the debt crisis of 1982–83. In the wake of debt crises in Argentina and Mexico, international commercial bank lending ground to a halt, forcing, as foreseen, the renegotiation of part of the external commercial bank debt of Brazil, Chile and Venezuela, as well as Ecuador, Peru and Uruguay.

The 1983 interest payments on the external debt of the Latin American and Caribbean countries are expected to be close to US$40 billion, even if international short-term interest rates do not increase above their level at mid-year. This figure has to be set against projected merchandise exports of about US$96 billion, compared to US$110 billion in 1981. Even with a significant immediate recovery of export earnings as a result of renewed economic growth in the industrialized countries, the interest burden would still be very heavy and likely to continue so into 1984 and 1985, unless there is a major offsetting inflow of capital. The immediate problem for the major Latin American debtor countries is therefore simple and stark: major outflows without comparable inflows.

Even though developing countries, regardless of their levels of income, suffered heavily from the international consequences of the 1981–82 recession, the debt aspect of the problem is basically concentrated in Latin America. Other developing areas have major balance-of-payments problems, of course. Much of sub-Saharan

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Africa has been engulfed in a chronic balance-of-payments problem since the oil price increases of the early 1970s. Some important oil-exporting countries, such as Indonesia and Nigeria, are caught in a financial and economic squeeze as a result of the drop in oil prices and the cuts in exportable volumes. Others, such as Korea, the Philippines and Yugoslavia, have been hard hit by the international recession. However, the major problem brought on by the international recession and the high interest rates of 1981–82 is concentrated in Latin America. Only the Philippines, among the countries shown below, has levels of debt which are comparable to those of the major Latin American borrowers.

TABLE I

ESTIMATED DEBT BURDEN OF SOME MAJOR DEVELOPING COUNTRIES

(amounts in US$ billion)

	(a) *Total External Debt, Including Undisbursed, At End 1982*	(b) *Estimated 1983 F.O.B. Merchandise Exports*	(c) *Ratio of (a) To (b) Debt to Exports*	(d) *Estimated Interest Due 1983 As % of Exports (b)*
Argentina	39	9	4.3	50
Brazil	86	22	3.9	46
Chile	17	4	4.2	50
Mexico	86	22	3.9	46
Venezuela	33	14	2.3	29
TOTAL LATIN AMERICA[1]	330	96	3.4	42
Algeria	15	12	1.3	14
Indonesia	22	19	1.2	21
Korea	37	24	1.5	18
Philippines	21	5	4.2	48
Nigeria	11	12	0.9	11
TOTAL OTHER LDCS[2]	350	330	1.1	12

[1] Including Caribbean and other countries not listed.
[2] All other developing countries except centrally planned economies and Middle East OPEC countries.
SOURCE: Derived by the author from Bank for International Settlements, *Maturity Distribution of International Bank Lending* (July 1983); Morgan Guaranty Trust Co., *World Financial Markets* (June 1983); International Monetary Fund, *International Financial Statistics*, various issues; and World Bank, various *Annual Reports*.
NOTE: These are estimates, subject to error, and should be used with care.

The question is not only a statistical one. The fact that most international banks have cut back very sharply on new loans to Latin America almost regardless of country differences—other than operations which are tied to reschedulings and to stabilization programs supported by the International Monetary Fund (IMF)—has tended to precipitate payments problems. Even countries with low debt burdens, such as Colombia and Trinidad and Tobago, are

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not finding it easy to obtain new loans. Fortunately, these attitudes of lenders, who have gone from optimism to pessimism, have not extended to the economies of Asia, so that at present there is little risk of a generalized debt crisis.

The fact that the debt problem is largely, although not exclusively, a Latin American one is illustrated by two highlights from the table:

—The ratio of the stock of outstanding debt to the flow of merchandise export earnings, which provide the foreign exchange to service the debt—admittedly an oversimplified measure of the weight of debt[1]—is more than three-to-one in the case of Latin America compared to about one-to-one for the rest of the developing world.

—As a result, in 1983 Latin American and Caribbean countries as a group will need to devote, at present interest rates, about 42 percent of their merchandise export earnings to pay interest on their external debt, compared to 12 percent on average for other developing countries. The ratio approaches 50 percent for the large debtors such as Argentina, Brazil and Mexico. It is as if a homeowner had to devote half his monthly income to interest payments on his home mortgage. (These numbers assume that world interest rates do not rise for the second half of 1983, and that export earnings are on target.) Obviously, repayments of principal are not counted in these numbers. On the medium- and long-term debt, principal repayments represent approximately another 20 percent of export earnings for Latin America as a whole, after the refinancings committed or under discussion so far in 1983.

III

Since Mexico announced in August 1982 that it was unable to meet the repayment of principal on the external debt of its public and private sectors, a number of major events and trends have unfolded. At the risk of oversimplification, these trends can be grouped as negative and positive, although the interrelationships are quite complex.

Perhaps the most striking on the negative side has been the sharp drop in new commercial bank lending to almost all Latin American countries. According to the Bank for International Settlements (BIS), the net flow (after repayments) from commercial banks to

[1] Comparing stocks to flows can be misleading. However, since interest is a proportion of the debt outstanding, the comparison is of some use. Also, it could be argued that all exports, including services (such as tourism), should be taken into account. Since Latin America as a whole has a negative balance on services, the concept of export of goods and services seems an inappropriate measure.

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Latin America in the second half of 1982 was only about US$5 billion, mostly because of the disbursement of earlier commitments to Brazil, compared to an annual rate of about US$25 billion starting in 1979 and through the first half of 1982.[2] Net flows from banks in 1983 are unlikely to be much above US$8 billion, mostly as a result of net lending associated with debt rescheduling. The music has indeed stopped for Latin America; net flows to the other developing countries, mostly in Asia, have also declined but at a slower pace.

Since commercial banks have provided more than two-thirds of the capital inflow into Latin America, not just for the last three years but for the last decade, the interruption creates major adjustment problems. The interruption of net new lending led directly to the inability of Brazil to meet its principal repayments after December 1982 and to the subsequent similar problems of Venezuela, Chile, Ecuador, Peru and Uruguay, in addition to the existing problems in Argentina and Mexico.

A second and related development has been the cutback in trade financing. Lenders, particularly the smaller banks, have naturally enough reduced their lines of credit for export and import financing and in some cases eliminated them altogether. Official export agencies, which play a key role in medium-term equipment financing, have also cut back. Although clear statistics are not available, the dearth of new financing, combined with the drastic economic recession in virtually all Latin American and Caribbean countries, has led to a sharp drop in exports from the industrialized countries to Latin America, and also in exports between Latin American countries and between them and other developing countries. In the case of Brazil, for example, one-third of exports in 1981 went to the rest of Latin America and to other developing countries, primarily in Africa and the Middle East, all of them depressed markets at present.

Exports from the industrialized countries to Latin America, which accounted for one-third of their exports to non-OPEC developing countries, fell by 21 percent in 1982 and are still falling in 1983. U.S. exports to Latin America, which were in 1981 equivalent to two-thirds the value of U.S. exports to Western Europe and double those to Japan, also fell by the same proportion in 1982. This fall in export sales from US$42 billion in 1981 to US$34 billion in 1982 had a direct cost of between 100,000 and

[2] The BIS' *Fifty-Third Annual Report*, June 1983, p. 116, shows only US$100 million. However, a later estimate, of July 1983, shows US$5 billion of net flows for the second half of 1982, largely for the reason noted. The first quarter of 1983 showed *no* net loan flows to Latin America other than US$2.5 billion associated with the Mexico and Brazil refinancings.

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130,000 jobs lost in the United States, and is continuing in 1983.[3] Even though Latin America absorbs only about seven percent of the exports of the industrialized countries, the sharpness of the drop in exports, which affects in particular already depressed industries such as equipment and machinery, is undoubtedly a drag on world economic recovery. For some European countries, the fall in sales to developing countries could, in 1983, make the difference between a mild economic recovery and no growth at all.

A third related point is the extent of the economic depression in Latin America. For a time in 1981, some economies, particularly Mexico's, shielded themselves from the world recession by massive external borrowing to finance public investment and consumption. As the lending stopped and long-delayed adjustment measures, such as devaluation and public spending cuts, had to be taken, the recession hit with double force. Devaluations had to be much larger than if they had been taken in time, giving a tremendous impetus to inflation. Mexico has had a devaluation of about 400 percent (in terms of pesos per dollar) in the last 18 months. Comparable devaluations have taken place over the same period in Argentina, Chile, Brazil and Venezuela.

The effect on the industrial private sector, which in all these cases had been encouraged by the policies of the authorities to borrow abroad, has been devastating: domestic sales in some cases have fallen by 30–40 percent in real terms, as incomes have lagged behind inflation. This has sharply cut the ability of enterprises to generate cash flow, while the amount needed in local currency to service external debt has increased three or four times in the last year. It is not an exaggeration to say that a major portion of private large-scale industry in Latin America—not to mention chronically sick state enterprises—is today in effect bankrupt. The worldwide intensification of trade barriers, a direct result of the international recession, aggravates the problem.

The policy of stimulating economies through public spending reached its peak in 1982; in Argentina, Brazil and Mexico, the public sector deficits as a proportion of the Gross National Product reached levels of 14 percent, 12 percent and almost 17 percent respectively. Deficits of this magnitude were key causes of large exchange-rate devaluations, and the combination has pulled up annual rates of inflation so far in 1983 to perhaps 300 percent in

[3] Jeffrey E. Garten, "The Big Debtors Try to Dig Themselves Out," *The Wall Street Journal*, August 1, 1983, p. 14, reports that in the first four months of 1983 U.S. exports to Latin America fell 40 percent from their 1982 level in the same months. The job loss for 1981–82 is the author's estimate, based on a ratio of about 12,000 to 15,000 jobs per US$1 billion in sales.

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Argentina, about 130 percent in Brazil, and over 100 percent (although now declining) in Mexico. Such stratospheric numbers eventually lead to major social and political strains. Inevitably, the process of strengthening public finances creates for a while even more inflation and discontent, as public enterprise prices and taxes are raised.

No one can deny the urgent need for major financial surgery, particularly on exchange rates and public finances. However, the suddenness and size of the measures required, plus the lack of a significant external capital inflow to help the adjustment, is creating a potentially explosive mixture of falling incomes, rising unemployment and galloping inflation. For Latin America as a whole, 1983 will be the third successive year of declining real income per person. I estimate that over the period 1981–83 real income per head will have fallen by about ten percent, and by larger percentages in the lower middle-income groups, such as government workers and non-unionized service workers. Unemployment rates, which are admittedly very difficult to measure in Latin America, are probably hovering close to 20 percent in major industrial centers such as Buenos Aires, Mexico City, São Paulo and Santiago, without counting the indirect unemployment of people working part-time or selling lottery tickets and knickknacks on street corners.[4] With the gradual weakening of the system of extended families helping their kin, and without any unemployment insurance, such numbers are not sustainable for very long.

Why has there been no social explosion so far? There is no easy general answer. In the case of Mexico, for example, the rapid income growth until 1981 has provided some cushion, as has temporary or permanent migration to the United States. A well-disciplined political organization and tradition, with close control over the major trade unions, has enabled the government to keep wage adjustments behind price increases, a key element in the fight against inflation. In other cases, the lack of apparent reaction may come from the suddenness of the change, which has left populations stunned, so to speak. Another element has been the increasing discussion of economic issues in the press which, as a result of growing literacy in urban areas, has created an awareness of the magnitude of the economic problems being faced. The new Peruvian Finance Minister, for example, got an unexpectedly sympa-

[4] Official statistics in Argentina, Brazil and Mexico show lower numbers. However, these statistics depend largely on figures for jobs lost, rather than being computed in terms of all those seeking work.

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thetic public response earlier in 1983 to his program to cut public spending to the bone.

In general, however, if there is no bread on the table, these positive developments can over time be offset by great social strains. The combination of inflation, unemployment and declining real incomes provides a breeding ground for such tensions. Explosions are usually not announced.

On the positive side of the ledger, the most important development in the last year has been the unquestioned desire of most governments to put their financial house in order. Brazil took that decision as early as December 1980, but it takes time and a hospitable international environment to succeed. All the governments of the major economies of the region have taken significant and in some cases drastic economic steps in the last six to nine months. Undoubtedly, the interruption of significant new lending by commercial banks has been the major stimulus for such measures. But that interruption is also the biggest question mark on whether the stabilization programs can succeed in a reasonable period of time. We will look at that crucial question later.

The other positive but also qualified development is the decline in world interest rates since mid-1982. The London interbank rate for six-month deposits, which has been the base rate for most international bank loans, fell from a peak of 16 percent in June 1982 to about 10 percent in the last quarter of 1982. After falling somewhat in the first quarter of 1983, the rate had risen back to 10 percent by mid-year and rose further to about 11 percent in mid-August 1983. Two points qualify this progress, however—the significant increase in bank charges above this base rate, and the uncertainty surrounding future interest rates.

The increase in bank charges is particularly important in the case of Mexico, which was paying very low margins over the interbank rate. With the new charges, Mexico is paying about 13 percent as of mid-1983 on its refinanced debt (which amounts to about US$40 billion of the US$60 billion in variable-rate debt). This level results from three changes: the base rate is now (at the option of the lenders) the prime U.S. lending rate, which is generally higher than the interbank rate (which is a deposit rate); the spread above that base rate has been substantially raised; and various additional fees have been attached to the refinancings and the new loans associated with them. Similar charges are included in the refinancings negotiated for Argentina, Brazil, Chile, Ecuador, Peru and Uruguay.

Most of these countries were already paying higher costs than Mexico, so that the effect of the changes on them is smaller.

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Furthermore, there are reasons for the changes: management fees for new loans are normal (although the new charges are on the high side), and the shift to a U.S. prime rate base option was important in order to convince smaller regional banks in the United States to remain in the loans. On the other hand, the argument that higher charges are justified because debtors had become riskier is more debatable. For one thing, the risk becomes difficult to measure when a debtor cannot service his debt; no premium can compensate that risk. In fact, in the case of major U.S. and Canadian corporations which have undergone debt restructurings in recent years, the interest rate charged by banks during the reorganization period has often been *below* market rates. These corporations have been represented by financial advisers independent of the banks: so far most major Latin American debtors have not wanted to antagonize lenders by hiring independent financial advisers, although the history of the refinancings so far shows that there might have been merit in an outside opinion on realistic debt-servicing possibilities.

The other problem concerns the trend of U.S. short-term interest rates, which are the preponderant influence on rates in the Eurocurrency market. Already in the second quarter of 1983, the interbank Eurodollar rate was up by about one percent, adding on an annual basis US$2.2 billion to Latin American interest payments abroad. If short-term U.S. rates were to go up another point or so in the second half, as some economists predict, because of the effects of present and prospective U.S. budget deficits, the total increase in debt servicing cost for Latin America since the spring of 1983 would be close to US$5 billion on an annual basis, a very significant sum at a time of sharply reduced capital inflows.

In short, the drop in interest rates—while positive on the whole—has present problems and future uncertainties.

A third positive development, which flows from the decline in imports and in interest payments, is the sharp reduction in the current account deficit of the region, in effect the requirement for external finance which remains after current inflows, principally exports of goods and services, have been used to pay for current outflows, mainly imports and interest. The very nature of developing economies, which need to import capital in order to supplement their inadequate domestic savings, means that they have a current account deficit and thus a need to borrow abroad and attract investment capital. However, Latin America and the Caribbean, largely as a result of the drop in incomes and the sharp decline in imports of the last year, have greatly reduced their need for

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external finance. The current account deficit of the region has fallen from US$38 billion in 1981 to US$33 billion in 1982, and is expected to fall to about US$18 billion to US$20 billion in 1983—if one assumes that international interest rates remain at mid-year levels. If interest rates were to go up further, the financing gap would begin to rise again. A return to the interest rates prevailing in mid-1982, for example—even though it is highly improbable—would entirely wipe out the improvement in the current account deficit of the last year.

The crux of the matter is that, even though the financing gap has been sharply cut, the availability of external resources has declined even more. The uncertainties about how Latin American and Caribbean countries will finance themselves over the next couple of years are undoubtedly a crucial concern of both lenders and debtors. The future trend of commercial bank lending is uncertain and a part of the new loans which have accompanied recent reschedulings of commercial bank debt is being used to finance the higher charges above the base interest rate. Foreign direct investment, which until recently covered about one-fifth to one-quarter of the current account deficit, has slumped in the wake of the recession both in the industrialized countries and now in Latin America. The return of flight capital which left a number of major Latin American economies in recent years could be important, but will take time. Finally, as we will discuss later, the multilateral development institutions—such as the World Bank and the Inter-American Development Bank—face resource constraints.

The present arithmetic is forbidding. Sources of net capital inflows—about US$8 billion of commercial bank lending, approximately US$2 billion of net disbursements from the multilateral development banks, and an equivalent amount of supplier credits previously negotiated—leave a significant financing gap, larger than what can be covered from private investment. Thus, even though the current account deficit has declined, the problem of covering it has become far more acute.

In sum, despite the drastic adjustments of the debtor countries and the major moves undertaken by the IMF and the banking community, there is a serious possibility that the Latin American current account deficit for 1983—and the similar amounts in prospect for 1984 and 1985–will not be met. The result could only be progressive deterioration in the economic situation of the key Latin American countries—with attendant dangers to political stability—and a spiral of events that could include inability even to meet interest payments on loans.

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IV

Is it reasonable to expect these countries to work their way out of their present economic and financial predicament? In recent months various projections have been constructed to show how this might be done.[5] Most of these projections show that *if* the industrialized economies grow at a reasonable rate (say three percent per year), *if* interest rates do not increase beyond mid-1983 levels (ten percent for the six-month Eurodollar interbank rate), and, most especially, *if* a modicum of capital inflows can continue, *then* most of the major debtors could resume economic growth and service their external debt more or less comfortably by about 1986. But there are many uncertainties. Most projections highlight the very limited room to maneuver in the next two or three years.

The relationship between lenders and debtors has created an unusual degree of interdependence. This is particularly the case with commercial banks, which have provided the bulk of external capital to Latin America in the last decade. The relationship is a little like that of two people on a see-saw: if one jumps off suddenly, both are likely to get hurt. Very large losses could affect major international commercial banks if countries are unable to work their way out of trouble. The problem concerns not only U.S. banks but also banks in Europe, Canada and Japan, as well as part of the debt to suppliers.

However, given the large share of the Latin American debts held by U.S. banks (about 45 percent of the debt to commercial banks), it is likely that leadership on the issue will have to come from the United States. Sizeable reductions in net income could affect some large banks if significant loan loss reserves had to be set aside for major Latin American debts, in the event that interest payments lagged substantially behind schedule. Banks have already set up such reserves for some of the debts owed by the Latin American private sector.

For problems to be worked out, there is a clear need to change the perception of hopelessness which permeates the international climate at present, particularly in the debtor countries. This pessimism could encourage some debtors to leave the hard road of financial discipline and adjustment and be tempted by apparently easier solutions such as a "cartel" of debtors. Export more? Import quotas on yarn, orange juice, specialty steels, which are just three

[5] For example, see, among others, Morgan Guaranty Trust, *World Financial Markets*, June 1983; William R. Cline, *Developing Country Debt under Alternative Global Conditions, 1983–86*, Washington, D.C.: Institute for International Economics (forthcoming in book form, summer 1983). The largest international banks have their own projections, as has the Federal Reserve Bank of New York.

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recent examples, are conveying the wrong message. More official funds? Even the 50-percent quota increase for the IMF has had an uphill battle in the U.S. Congress. Economic recovery in the industrialized world? High and rising real interest rates could slow down the recovery. As lenders and borrowers look for solutions, they find closed doors and blocked paths.

Another important need is to maintain an atmosphere of calm. Each new confrontation creates an air of crisis which makes it difficult to maintain a flow of lending from banks less involved internationally. Smaller and so-called "regional" banks, which account for about 15 percent of the outstanding international commercial bank debt of Latin America, undoubtedly want to get out of these loans, a trend which would put great pressure on the larger banks to increase their exposure even more than planned. So far a confrontation has been avoided, but any rumors of an impending crisis in a particular country affect confidence adversely.

The sensitivity of individual countries' problems is illustrated by the case of Brazil, which faces a fairly drastic adjustment program with the IMF. As of this writing, it appears that the IMF has restored the ability of Brazil to draw funds under the facility agreed earlier in the year, after Brazil implemented a new tough set of anti-inflationary measures mainly to keep wage adjustments below inflation. This has avoided, for the time being, a major problem for Brazil's lenders, whose disbursements on a US$4.4-billion loan are tied to disbursements on the IMF facility. However, the dearth of additional capital inflows continues to make it difficult for Brazil to service interest on time. As problems are aired publicly, including the initial well-publicized requirement by the Bank for International Settlements that Brazil had to repay an earlier emergency loan on time, the task of avoiding confrontations and possible crises becomes more difficult.

Until now, market mechanisms have handled the problems of debtor countries as they arose. But it is not clear whether such mechanisms can continue to be effective by themselves, without leadership by the governments of the major industrialized countries. For the lending banks, a serious dilemma arises: on the one hand, it is quite clear that they cannot continue lending at anything like the breakneck pace of 1979–81; on the other hand, if lending does not expand moderately, it will be very difficult for lenders to collect interest on past loans. For debtor governments, most of which clearly recognize the need for tough belt-tightening measures, the problem is that austerity may be too costly in social and political terms and that a gradual approach may not be feasible

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because of the lack of external finance and the delay in the recovery of export earnings.

Rather than discussing whether we are or are not in a crisis, or whether it is an issue of insolvency (that the borrowers can "never" pay) or illiquidity (that they cannot pay now), which are questions of degree and definition, it is more useful to outline the preconditions for both the debtors and the lenders to work their way out of the problem:

—First, it is useful to distinguish between the immediate future and the longer term. The coming year is probably the critical one, since export income of the debtors will still lag for a time until an international recovery is in full swing, while large interest payments will come due at a time of very limited capital inflows. This is not to say that there is not a longer-term problem, as the refinancings being arranged now start becoming due in three or four years. Moreover, there are historic reasons, summarized later, which suggest that the pattern of development of Latin America cannot easily be changed. Nevertheless, from the practical point of view of dealing with the most urgent problems first, it is important to analyze possible action in terms of what is politically feasible now, not a year or two from now. Anyone familiar with the mood of parliaments in major industrialized countries, especially the U.S. Congress, has to recognize that there is no room for quick big-scheme solutions where taxpayers would directly or indirectly have to put up substantial new funds.

—Second, no single party can carry the whole load of adjustment. Any arrangements must involve some effort on the part of both the lenders and the borrowers. This has been the case so far, although the degree of effort on each side—namely continuing some positive net flow of lending by the banks, and financial discipline and austerity on the part of the debtors—is viewed suspiciously by the other. It is doubtful if serious problems can be avoided in the future without some intervention by the governments of the main lenders to help stimulate a larger capital inflow.

—Third, any way out thus has to emphasize the restoration of capital inflows. To be sure, these flows cannot over time rely only on commercial bank funds. A better balance than in the last decade has to be found between investment capital and loans. Obviously, however, direct and portfolio investment will take some time to revive.

—Finally, it is essential to remove the obstacles to the revival of

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export growth. The extent to which the growth of protectionism in recent years has affected Latin American economies is not clear. Countries in South and East Asia have been affected as much, if not more. But it is clear that special interests in North America, Europe and Japan, for what are locally very understandable reasons, but which affect only a relatively small percentage of labor forces and of commerce, are gaining strength as the effect of the recession gets translated, after a lag, into political processes. Governments are applying remedies that may no longer be needed by the time they are implemented but which could have proportionately significant effects on the ability of debtors to sell abroad and earn foreign exchange.

In looking at the immediate future, the most urgent measures are to keep up an inflow of capital, to reduce the burden of interest payments, and to stop the rise of protectionism. The role of the governments in the major industrialized countries is crucial in all three actions.

V

The ability of the international financial fire brigade, the International Monetary Fund, to function is crucial. It is essential to put in place as soon as possible the increase in the resources (paid-in quotas of countries) of the IMF. Several points should be made. First, available IMF resources are nearly depleted. If any large industrialized country were to need special assistance from the Fund now, a distinct possibility, the resources of the Fund would be exhausted. Second, even the quota increase, now in train, of about 50 percent simply catches up with past world inflation and would not contribute significant new real resources.

Third, the Fund is not, as some politicians appear to think, a giveaway to developing countries. It is a currency pool, which makes foreign exchange available to *all* member countries—the United States has been a borrower in the past—under rather strict conditions, in order to replenish the foreign exchange reserves of countries facing balance-of-payments problems. It is not a provider of long-term capital. Finally, since the quota increase will probably take at least until mid-1984 to be put into place, there is still a need for a temporary special facility, financed by the existing "General Arrangements to Borrow" or some other form of cooperation among capital surplus countries.[6]

[6] See my earlier article, "Latin American Debt," *Foreign Affairs*, Winter 1982/83, pp. 362–63.

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If the quota increase of the IMF cannot be approved as proposed, and even if the approval takes many more months, such a negative would be a clear signal, both to debtors and lenders, that the major countries of the world do not consider the present problems important enough. Some debtors would be tempted to default, and lenders would then wind up knocking at the doors of their central banks for what could then amount to a costly bailout. It is unfortunate that the increase in the resources of the IMF, which was needed anyway, has coincided in time with a political debate, especially in the United States, on whether the debt problem should be laid at the door of the lenders or the debtors, both of whom are seen as villains.

A second avenue that should be explored quickly is how to stimulate more lending by the World Bank and the Inter-American Development Bank. Unfortunately, the net resource transfer—disbursements less payments of principal and interest—of the World Bank to Latin America in the last fiscal year was only about US$500 million, a relatively modest sum, and has stayed at approximately that level since 1980. Even though disbursements rose in fiscal 1983 to US$2.3 billion, because of a larger proportion of sector support loans, amortization and interest absorbed the whole of the increase. The IADB, which has a lower cost mix of funds because of the concessional Fund for Special Operations supported mainly by the United States, has been able to raise the net transfer moderately from about US$600 million to US$800 million over the same period.

In order to increase World Bank lending, which is tied to projects, many of which have either been suspended or sharply slowed down in the last two years, there is a need for greater resources and for more flexible lending policies. The United States has basically opposed such policies, which would emphasize sector-support or "structural adjustment" loans, although it has recently toned down its opposition somewhat.

The entry of China into the Bank, and the uncertainty of future contributions by industrialized countries, particularly the United States, to its concessional window—the International Development Association—has drawn Bank funds away from possible loans to Latin American borrowers. Latin American countries are thus giving special support to the IADB. With its recently approved increase in capital, the regional bank can now significantly expand its activities, although some redirection of lending policies may be needed for the difficult two or three years ahead.

For both the World Bank and the IADB, a quick-fix solution to

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future funding has been promoted by those who recommend a doubling of the so-called "gearing ratio," which is the ratio of capital contributions by the major creditworthy members of the institution (basically the Organization for Economic Cooperation and Development countries) to the outstanding borrowings. That ratio is currently about one-to-one. The solution envisaged is thus simply to borrow more without providing more guarantee capital.

This is not a worthwhile course. The fact that deposit-taking commercial banks have a ratio of paid-in capital to assets in the United States of about 5–6 percent is not relevant to a long-term development institution which has to borrow the bulk of its resources in the capital markets. Bondholders, who rightly view the obligations of both institutions (and the Asian Development Bank as well) as guaranteed by the United States, Japan, Germany, etc., would now begin to look instead at their loans to developing countries. The resulting downgrading of the bonded debt of the World Bank and the regional multilateral development banks would be costly to borrowers and would end up being an irreversible step.

It is easier to increase as soon as possible the capital of the World Bank—and restore funds to the Fund for Special Operations of the IADB—particularly since the capital increases require little cash. The recent IADB capital increase involved only 4.5 percent in cash. In essence, the development banks are thus already like insurance or guarantee schemes organized to pass through relatively low cost funds to their borrowers. It is probably easier to increase their callable capital, which is in effect a "guarantee" capability, than to establish a whole new guarantee scheme—although that idea should not be discarded if it becomes absolutely necessary to stimulate an adequate net flow of commercial lending.

New lending by the multilateral agencies, as long as it can be targeted at the real problems faced by countries, is preferable to more emphasis on co-financing with commercial banks. In the present market, co-financing with commercial banks will not work simply on the basis of cross-default clauses, such as the World Bank and IADB have provided between their loans and the related commercial bank loans. The whole of international bank lending is cross-defaulted—that is, a default on one loan can trigger a legal default on all the debt and guarantees of a particular borrower—yet that has not prevented payment delays and de facto defaults. In the present market, only a guarantee will work, but in that case both the international institutions and the countries are better off with straight lending at the less-than-commercial rates which the multilateral development banks can provide.

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Third, it is urgent to reduce the interest burden. The problem is complex. Much depends of course on the path of international interest rates themselves, which are closely linked with U.S. rates and difficult to predict. But even if basic rates remain at their mid-1983 level, it is clear that the interest burden is very heavy indeed. This has stimulated a number of proposals to refund the debt of some (or all) developing country debtors into long-term obligations at less than market interest rates.[7] Unfortunately, most of the schemes are unlikely to be feasible politically and would probably also have negative side effects, principally in drastically reducing new commercial bank lending for a long time.

It is quite unlikely that any of the schemes so far advanced to reduce the load of debt could be implemented in the next year, since they all require, in varying degrees, the multilateral approval of governments. Opinion in creditor countries is generally not sympathetic to such schemes. Progressives look upon these ideas as a bailout of imprudent lenders, and conservatives, as a bailout of irresponsible debtor governments.

Such schemes, in the improbable event that they were economically and politically feasible, also run into the problem that they would probably stop further bank lending for a very long time. The charge against bank earnings would be too large because the loans could not be recycled except at very large discounts. Moreover, the idea that official institutions such as the IMF, which are having a hard time raising additional resources for their established operations, should bear this additional burden seems impractical.[8] Yet the recycling schemes do make the important point that the debt service burden is too high.

What might be possible, in a contingency plan that would be activated in an emergency, would be a temporary reduction of the interest burden—so designed as to avoid damaging the prospects for continued lending on a moderate scale. For the banks, many of which would obviously resist such a move strongly, it would at least have the advantage of reducing the increase in their lending, since at present, before Latin American export growth revives and new

[7] For example, Felix Rohatyn of Lazard Freres (in *Business Week*, February 28, 1983) suggests that a major portion of credits be turned into long-term low-interest bonds, under the aegis of the IMF. Peter Kenen of Princeton University (*New York Times*, March 6, 1983) proposes that a special agency buy the loans from the commercial banks at a discount, with the proceeds of long-term bonds. A proposal along similar lines, but using the World Bank, has been made by Richard Weinert in *Foreign Policy*, Spring 1983. Minos Zombanakis has proposed a Loan Guarantee Fund in the IMF (*The Economist*, April 30, 1983). There are a number of other interesting proposals.

[8] For a discussion, see Yves Laulan, "A New Approach to International Indebtedness," *The Banker*, July 1983.

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sources of capital inflows can be developed, an additional dollar of interest service by the borrowers is financed (in simplified terms) by an additional dollar of bank lending and exposure. It may be better, at least during the immediate recovery period, for lenders to sacrifice the 50–60 cents of net after-tax earnings which a dollar of added interest income provides, in exchange for not having to put up an extra dollar of lending.

Thus, it is worth considering whether the banks might not be better off working out a temporary arrangement on interest charges than having to come up with last-minute financing packages in the midst of a crisis. I stress that such an arrangement would have to be temporary, and that the reduced interest could not be below the market costs of funds if the central objective of keeping some flow of lending is to be maintained.

Under several of the broad refunding schemes proposed so far, the interest reduction would be well below the cost of funds to the commercial bank lenders—as low as six percent in one specific proposal. But even if the new interest rate under these schemes were set at nine percent—while the London interbank rate stood at ten percent—the savings to the Latin American debtors of about US$7 billion would be achieved only at the cost of great if not irreparable damage to the chances of financing the remainder of the current account deficit of Latin America. A more modest proposal to reduce interest charges, for example, to no more than one percent over the interbank rate, including all other charges, for a period of about two years—until world recovery begins to pull up Latin American foreign exchange earnings—would still save debtors at present rates about US$4.5 billion annually, without damaging to anything like the same extent the chances for new lending.

It is unlikely that bank lenders would by themselves accept such a reduction, even a modest one proposed on a contingent basis. There would no doubt have to be some government persuasion. Given the time constraints, direct persuasion, as has occurred in the recent refinancings, may be better than a large international conference, which requires much preparation. If interest rates look at all as if they are again on the rise, consideration of some sort of scheme to reduce the interest burden at least temporarily will become urgent. Otherwise, as export earnings failed to recover in the wake of the negative effects of higher interest rates on recovery in the industrialized countries, lenders would find themselves facing the dilemma of having to lend more simply to get paid the higher interest due.

A related point is whether a quid pro quo for the reduction in

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interest charges might be necessary, such as some form of medium-term international or government guarantee for net new lending. Even if this were politically feasible, however, we have just noted that it would take time to put such an arrangement in place. Perhaps the understanding that a guarantee would, as a last resort, be given serious consideration by governments would be enough stimulus to arrange a contingent scheme to reduce interest costs in the immediate future. That and the continuation of net capital inflows are the only avenues of action open for the short term, together with the continuation of difficult austerity measures in the borrowing countries.

It is clear that the policies which could yield results soon are difficult to enact. Moreover, something is needed on each front, especially on replenishing the resources of the IMF and on lowering the interest burden without jeopardizing new flows, a most difficult task. In order to put all the pieces of the package together, some form of concerted action by the governments of the major money and capital markets of the world is needed. Of course, each month that passes without a major crisis reinforces the feeling in some quarters that the worst is over and that eventually the problems will evaporate in the wake of world recovery. Such a view gives an uneasy comfort but is not consistent with the magnitude of the financing problem, especially as seen from the debtor countries.

So far, the temptation to stray from the path of IMF-supported austerity has been avoided by the governments of Latin America. But the present equilibrium is a tenuous one. It is quite conceivable that the government economic teams which have followed such policies could be jettisoned in the face of strong political opposition. The refinancings linked to the IMF credit facilities would then be called into question and a period of confusion could well follow. At that point some governments might be tempted to talk and think of a debtors' cartel, in the sense of a coordinated suspension of debt service. The idea is at present viewed by financial policy makers in most countries as a product of the lunatic fringe. But if these officials and their policies do not receive enough external support now, there is the risk that the lenders might face a very different cast of characters. That is why it is important to focus in a more concerted fashion on possible solutions while the problem appears to be in remission.

VI

For the medium term, the proper emphasis should be to continue to find ways to stimulate new capital flows, especially in the immediate years ahead. To do that within the short time available is

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extremely difficult. No one scheme or source of flows will do. Complicated new arrangements are unlikely to be feasible. Nor can new flows simply be blank checks to underwrite a revival of state-enterprise deficit spending in borrowing countries.

Besides the areas already mentioned, there are others which could be of great importance to economic recovery, although not immediately. The longer horizon does not mean that the necessary policies should not be put in place now. Two important areas are:

Private investment. This is not a promising source for the next year or two, but could be of great importance once economies revive. In the early 1960s, private direct investment provided about 40 percent of the net capital inflows into Latin America, particularly into Brazil and Mexico. In recent years, the proportion has fallen to 20–25 percent. In 1981–82, net flows were about US$6 billion to $7 billion annually, a sum which has fallen in 1983. It is essential to establish the preconditions now for an investment recovery later. Mexico has already begun to take measures, for example by reducing in practice the requirements for domestic ownership. Peru is breaking away from the Andean Group's ill-conceived restrictions on foreign direct industrial investment. Multilateral investment guarantee schemes, which have been under study for many years at the World Bank and elsewhere, deserve another look.

Of equal or even greater importance is private domestic investment, since its revival would pull back into Latin American countries part of the large sums which fled in 1981–83. For example, perhaps US$20 billion to $25 billion is estimated to have left Mexico and Venezuela, the two most notable cases, in that period. While some of what has gone out will stay out, more realistic exchange rates, political stability and a revival of domestic markets would, in time, begin to attract some of the flight capital. Unrecorded flows of this type could make a big difference once the beginnings of improvement are visible.

Credit insurance. Since it is important to keep some bank lending going, albeit on a more controlled scale, several schemes have been advanced under which a multilateral credit insurance facility could be established, to be run on an agency basis by the World Bank or the IMF, or a combination of the two. The facility would cover additional lending. Setting up a multilateral arrangement is probably desirable but politically difficult and time-consuming.

In the meantime, individual export credit agencies, working with the World Bank and the IADB, could more quickly get themselves organized.[9] The resources are there: for example, as of May 1983,

[9] See, for example, Harold Lever, "The Lever Plan," *The Economist*, 9–15 July, 1983.

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the U.S. Export-Import Bank had barely committed one-tenth of its authorized lending for fiscal 1983, largely because of the cutbacks in development projects around the world. Commitments for the full fiscal year are likely to be well below authorizations. Of course, changes in legislation would in some cases be required, but they would probably be easier to obtain than for a multilateral scheme and could be set in motion while a multilateral arrangement is designed and evaluated.

On the multilateral front, the idea of an Export Development Fund[10] also has much appeal, especially if it could be expanded from lending to developing countries for capital goods imports to helping to finance the exports of these countries, which represent, in general, transactions which are liquid, usually secure, and suitable for commercial finance.

There is only limited time to put into effect policies which would produce results by 1986–87, when the first big repayments on the recent refinancings are due. The struggle into recovery will not be easy: as I emphasized in my earlier article, the economic problem in the major Latin American countries is not simply a cyclical one but arises in part from their historical stage of development.[11] For countries such as Argentina, Brazil, Mexico and Venezuela, with relatively large internal markets in comparison with the export-oriented East Asian economies, the thrust of development has been industrialization for domestic consumption and the building of infrastructure for a rapidly growing population. In that sense, the pattern of development has some similarities with that of the United States a century ago. The difference is that real interest rates were then at the historic norm of about three percent in real terms, whereas today, for Latin American borrowers, the real rate on their commercial debt is closer to nine percent in real terms.

Another important feature has been that the major Latin American economies have not in the last three decades been able to provide enough jobs, particularly for the growing lower middle class, which wields increasing political power.[12] Political pressures have thus built up to provide jobs through the government and state enterprises. Similar pressures act to maintain overvalued exchange rates and interest rate subsidies—which help middle class consumption—all of which tends to build up budget deficits, stim-

[10] See William H. Bolin and Jorge Del Canto, "*LDC Debt: Beyond Crisis Management*," *Foreign Affairs*, Summer 1983, pp. 1099–1112.

[11] Kuczynski, *loc. cit.*, pp. 354–58.

[12] See, for example, G.P. Pfeffermann, "Latin America and the Caribbean: Economic Performance and Policies," *The Southern Review of Management and Economy*, Winter 1982.

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ulate borrowing and hold back the growth of export earnings. This set of policies also tends to hold back employment, particularly in manufacturing, where advanced social legislation for a minority of the labor force tends to push up wage costs to levels which are uncompetitive internationally.

Such policies underlie, with periodic changes in emphasis, much of Latin America's rapid economic growth in the postwar period and will not change quickly. There is therefore a long-term aspect to the debt problem beyond the admittedly more pressing cyclical problem.

VII

A clean and simple, conceptually satisfying scheme to "solve" the debt problem obviously has intellectual appeal, while the present muddling through is fraught with danger. For the time being, however, political realities, especially in the United States, make it very difficult to envisage an all-encompassing scheme. There is far more political concern within the United States about Central America than about the debt question, although the long-term effects of the latter could turn out to be very serious.

As long as nothing explodes, there will be little interest in setting up contingency mechanisms. Only a real crisis, which hopefully will not occur but is unfortunately a distinct possibility, will powerfully concentrate the minds of policymakers other than the central bankers and Treasury officials who have already been involved. In the meantime, everyone would be better off if lenders, authorities in the lenders' countries, and major borrowers work together in setting up a concerted program to help existing official institutions to do more and to establish contingency plans to lower the interest burden of commercial debt, in the event that the debt burden cannot be managed.

Both lenders and debtors face a critical period. While there are indeed some chances that the problem will gradually be overcome by world economic recovery, the risk of major crises ahead is high. It is therefore vital to anticipate these problems in a concerted fashion, well ahead of time, rather than run the risk of facing them at the very last minute.

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Richard H. Ullman

AT WAR WITH NICARAGUA

The Reagan Administration is at war with Nicaragua. Like other wars the United States has fought since 1945 it is an undeclared war. It is also a small war. No U.S. serviceman has yet fired a shot, but American-made bullets from American-made guns are killing Nicaraguans, and the President of the United States has made the demise of the present Nicaraguan government an all-but-explicit aim of his foreign policy.

Indeed, the President and his closest advisers seem obsessed with Nicaragua, and their obsession has infected their government at all levels. There is ample evidence that no issue of foreign policy—not arms control negotiations with the Soviet Union, not the Middle East, not Poland or Afghanistan, not the spiralling economic tensions within the Western Alliance, not the Latin American debt crisis, not even the civil war in El Salvador—so preoccupies senior officials. Like the much larger war against North Vietnam half a generation ago, the war with Nicaragua touches every sphere of foreign relations. Armed with "talking points" prepared in Washington, American diplomats plead for support from friendly governments around the world, putting additional weight on alliances already sorely strained. Adducing implausible economic criteria, American representatives to international financial institutions use their blocking votes for the political purpose of denying Nicaragua access to funds, and in doing so make it easier for other governments to use the same institutions for purposes antithetic to long-term American interests.

In his speeches and press conferences, the President describes the Nicaraguan leaders the way he does the Russians and the Cubans: all are Marxist totalitarians implacably hostile to the United States and prepared to use terror and deceit to maintain their own power and to undermine their neighbors. But a special hostility is reserved for the Sandinist regime in Managua. Its very existence seems to affront. How dare a nation of 2.5 million provoke a

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superpower 100 times larger, Mr. Reagan implies. His recent pronouncements on Nicaragua recall the question attributed to an English king obsessed with an overly independent Archibishop of Canterbury: "Will no one rid me of this meddlesome priest?"

To rid Nicaragua of its meddlesome regime the Administration has chosen an exile army, backed by American military power. For nearly two years the Central Intelligence Agency has paid, supplied, and trained a force of counterrevolutionaries—"contras," as they are universally called—based in Honduras just across the border from Nicaragua. That force now numbers about 10,000 men. The CIA is said to want to increase it to as many as 15,000. Simultaneously, the Department of Defense is pouring resources into Honduras' army (its air force is already the best in Central America) and into building additional air strips and perhaps also naval facilities to make it easier for the United States rapidly to bring in its own forces. And in early August U.S. army, marine, and air force units began preparing for an unprecedentedly long six months of training maneuvers with Honduran forces—including, for much of the period, 5,700 U.S. combat troops ashore—while two carrier task groups took up patrolling positions off Nicaragua's Atlantic and Pacific coasts.[1]

Nicaraguans are convinced that the Reagan Administration would like nothing more than to provoke a full-scale war between themselves and the Hondurans, one that Nicaragua would appear to have started, as a pretext for taking direct military action. They are mindful that General Gustavo Alvarez Martínez, commander of the armed forces and politically the most powerful figure in Honduras, has said that no government in the region will be safe so long as the Sandinistas rule Nicaragua. "Everything you do to destroy a Marxist regime is moral," he told reporters in late July.

For their part, however, the Sandinistas are determined to avoid a provocation. They are therefore fighting with one hand tied behind their back, the hand that would strike the contras in their Honduran bases and training camps. Although widely accepted principles of international law would give them ample license to do so, the Nicaraguans have prudently elected not to make any incursions in force across the border so as not to give General Alvarez

[1] The President himself has been singularly disingenuous in describing these maneuvers. In his press conference of July 26, he described them as simply like past maneuvers in the area—in effect routine—and expressed surprise that their announcement had aroused such worldwide attention. *The New York Times*, July 27, 1983. But the largest previous land exercise in Honduras involved 900 U.S. troops and lasted only six days. One other maneuver to which Mr. Reagan made reference, in Panama for the defense of the Canal, was also of brief duration and involved 3,000 U.S. troops as part of a combined inter-American force. And there is no precedent for the scale or proximity, let alone the intent, of the naval deployments.

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the excuse he seems to be seeking for a U.S.-backed holy war. Except for occasional short forays in pursuit, they have therefore elected to wait for their enemies to come over. Before the contras reach Nicaraguan territory, however, they disperse into small units much more difficult to locate and destroy. They are nevertheless numerous enough to do fearsome damage to the poorly armed communities that lie near the border.

The Administration has assured Congress that the counterrevolutionary "freedom fighters" strike at military targets. Reality is different. On a tour of rural development projects in August I saw farm buildings devastated by mortar fire or by the torch. And I heard many accounts of peasant families being kidnapped and taken across the border, often never to return, and of assassinated teachers, health workers, and agricultural technicians. The Nicaraguans claim that since March 1982, when the intensity of incursions substantially increased, the contras have killed more than 700 persons. Most of these victims have been unarmed civilians. A few have been civilians in uniform—hapless militiamen posted on isolated guard duty. Very few have been members of the regular armed forces. There is no reason to think that the Sandinistas have exaggerated these losses. They can scarcely gain by heightening the impression that they cannot protect their own supporters.

Spokesmen for the contras in Honduras—their political organization is the so-called Nicaraguan Democratic Front, or FDN—say that the purpose of their invasion is to furnish a rallying point for disaffected Nicaraguans who would like to join them in opposing the Sandinistas. Thus far the only group that has responded in any number to their appeal has been the Miskito Indians of Nicaragua's Atlantic coast, whom the Sandinistas alienated by insensitively harsh treatment at the beginning of their rule.[2] Among the majority *mestizo* population, particularly among the poor campesinos who live in the mountainous territory near the border, the effect has been precisely the opposite. They are well aware that the contra forces in Honduras are led by, and contain within their ranks, many former members of the feared and hated National Guard, the instrument with which the Somoza family ruled Nicaragua for four decades. They see the contras as threatening the benefits that have come to them since the revolution—land, schools, health clinics, and an intangible but crucial sense that for the first time in their lives the state has *their* welfare in mind. In a dozen peasant com-

[2] The Sandinistas now freely admit that their treatment of the Miskitos has been characterized by disastrous errors. On August 3, 1983, at a press conference announcing the release from detention of 46 Miskitos and promising the early release of those still detained, Interior Minister Tomás Borge reviewed the record with a frankness that the Sandinistas' opponents would have found difficult to improve upon.

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munities I heard the same thing from scores of people: Nothing had rallied them to the Sandinist cause as much as the contras had done.[3]

Behind the contras, moreover, they see the United States. A page from a year-old copy of *Barricada*, the Sandinist party newspaper, tacked to the wall of a campesino hut in a new farming cooperative less than ten miles from the Honduran border, encapsulated the history of U.S.-Nicaraguan relations as most Nicaraguans see it. *A 126 años el enemigo es el mismo*—"After 126 years the enemy is the same"—the banner headline proclaimed. The accompanying text began with the murderous expedition of the freebooter William Walker in 1856. It ended with Ronald Reagan's embrace of the contras.[4]

II

For most of that dismal history, few Americans have had any interest in or concern for Nicaragua. But Nicaragua's agricultural and mineral resources (there were once flourishing gold mines) have been of intense concern to a small number of Americans, and it was the protection of those private interests that for so many years motivated official U.S. policy. That is no longer the case. In an era of burgeoning investments abroad, those in Nicaragua are barely of significance now.

Washington's earlier concern for the defense of private economic interests has been replaced by a preoccupation with Nicaragua as a pawn on the East-West chessboard. President Reagan and his advisers seem to regard as irrelevant ancient history the fact that many Nicaraguans feel that the Sandinistas liberated them as much from the interventionist hand of the United States as from a harsh dictatorship that exploited the entire country as its private plantation. They are unmoved by the efforts the new regime has made

[3] The contras operating from Honduras should be distinguished from the much smaller force of roughly 1,000 men now fighting the Sandinistas from positions along the border with Costa Rica in the south. This force is under the leadership of Edén Pastora Gomez—the famed "Commander Zero" of the revolution, who broke with his colleagues over what he considered to be their betrayal of the goals for which they had fought in common. Until recently, when he reportedly made an agreement for collaboration with the FDN, Pastora has eschewed association with former Somocistas, including members of the *Guardia*. But his force is so small, and the terrain to which it has access is so remote and sparsely populated, that it can be at most a nuisance, not a serious threat. Moreover, in contrast to the FDN contras, Pastora's force has received little, if any, U.S. support.

[4] Other events that Nicaraguans invariably recall are the U.S.-backed overthrow of at least one president (José Santos Zelaya, in 1909), the frequent intervention of the Marines, including their almost continuous occupation of the country from 1912 to 1933, and the creation of the National Guard, making possible the Marines' withdrawal. Works to consult include, for the early period, Wilfred Hardy Calcott, *The Caribbean Policy of the United States, 1890–1920*, Baltimore: Johns Hopkins, 1942; and, for the later period, Richard Millett, *Guardians of the Dynasty: A History of the U.S.-created Guardia Nacional de Nicaragua and the Somoza Family*, Maryknoll (N.Y.): Orbis Books, 1977.

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to put idle land at the disposal of peasants willing to work it, to teach vast numbers of illiterate adults to read, or to transform rural health conditions. And they are openly disbelieving of its assertion that the national elections it has planned for 1985—the first since "the triumph" (as it is called) of 1979—will be truly open and competitive.

The Administration's concern, instead, is with the Sandinistas as carriers of a revolutionary virus that came from the Soviet Union by way of Cuba, and with which they will surely attempt to infect the rest of Central America. They will do so, the President has said, because they are dogmatic Marxist-Leninists committed to monolithic totalitarian rule at home and to the propagation of violent revolution abroad. As such, they could not be believed even if they were to promise not to interfere in their neighbors' internal affairs. The clear implication—Mr. Reagan has stopped just short of saying so explicitly—is that it is fruitless to seek regional peace by means of negotiations, for the Sandinistas will break any agreement they sign.[5]

It is of course possible that the President—and the recently established "Outreach Working Group on Central America" in the White House Office of Communications, whose primary function seems to be to whip up domestic support for the Administration's Nicaragua policy—may be correctly characterizing Nicaraguan political reality. Despite their protests to the contrary, the Sandinistas may indeed be pursuing a planned process whose end result will be a state in which all dissenting views will be ruthlessly stifled and in which power will be every bit as centralized as it is in Cuba. Their insistence that they want a mixed economy, not a collectivized one, and their repeated appeals to the many Nicaraguan entrepreneurs and planters who were not Somocistas to stay and continue producing for the benefit of the nation (and themselves), may be intended simply to lull them into keeping their capital at home until the time is ripe for sudden and universal expropriation. Their efforts to incorporate the views of opposition parties into the three laws now being prepared to govern the 1985 election—one detailing the rights and obligations of parties, a second laying out electoral procedures, and a third establishing rules of access to mass media—may also be window dressing designed to cover a prepackaged Soviet-style landslide.

Certainly there are disturbing signs. Nicaragua's habitual voting

[5] The Administration has insisted that any commitment the Nicaraguan government might make not to supply arms to the insurgents fighting in El Salvador must be accompanied by air-tight verification provisions because in their absence the Sandinistas would surely cheat. Yet U.S. officials also say that they think it impossible that satisfactory verification mechanisms can be devised.

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with the Soviet bloc on major issues before the United Nations undermines the Sandinistas' claim to be following a foreign policy of nonalignment. So does the guiding role that Cubans evidently play in Nicaragua's armed forces and in its intelligence and internal security apparatus. While the Sandinistas may rationalize that role by pointing to the external threats that Nicaragua faces, they are likely to find that military and security services once grown fat and pervasive, as they surely will under Havana's tutelage, cannot easily be made to wane or to relax their grip.

It is dismaying, as well, that some leading early supporters of the revolution have felt that they had no alternative but to leave Nicaragua and go into exiled opposition.[6] And while the Sandinistas may be persuaded of the inherent justice of their decision, taken soon after they came to power, not to hold national elections until they had taught an illiterate peasantry to read and thereby to make informed political decisions (and, they also said, to assure that they themselves would not be swept into office by a tide of irrational enthusiasm), a visitor may be excused for being skeptical: by 1985 the peasantry will indeed be literate, but it is likely to be indoctrinated as well.

It may also be intimidated. There are many indications of a bullying zeal, particularly at the grass roots level, that belie the earnest disquisitions on the crucial importance of pluralism that a visitor hears repeatedly from Sandinist leaders. Particularly jarring to North Americans are the neighborhood "Committees of Sandinista Defense" (CDS) that perform useful (and necessary) police functions but too often combine them with ideological vigilantism. Disconcerting also are the revolutionary slogans stencilled or (as is usually the case) scrawled like graffiti on every wall. They may be the more-or-less spontaneous products of youthful enthusiasm, but their effect cannot help but be intimidating. There are, indeed, competing messages—usually staid appeals to support other political parties—but they are much less prevalent, and sometimes (unlike the Sandinist slogans) they are defaced.

Other indicators are less visible but equally unsettling. I heard accounts of a neighborhood medical dispensary sponsored by the Catholic Church and supplied with drugs by the Agency for International Development and other U.S. sources being vandalized by young members of a local CDS resentful of the fact that, owing to the critical shortage of foreign exchange, the regime's own dispensaries are much less adequately supplied. More disturbing, of

[6] See the eloquent statement by one such figure, Arturo J. Cruz, "Nicaragua's Imperiled Revolution," *Foreign Affairs*, Summer 1983, pp. 1031–1047.

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course, are the prepublication censorship and occasional shutdowns of the press, which in practice affects only *La Prensa*, the most popular of Nicaragua's three daily newspapers and the only one that is an opponent of the regime. (The censorship of *La Prensa* is curiously ambivalent, however. Each day the newspaper is permitted to make photocopies of the material the censors delete and to distribute them to a list of subscribers that includes all foreign embassies. And it also posts a set of the photocopies on a bulletin board in front of its building, there to be read by any passers-by who choose to do so.)

Like other derogations from the rights and liberties promised by the Sandinistas in the Fundamental Statute they promulgated at the time of their victory in 1979, censorship is part of the State of Emergency declared in March 1982, after two important bridges were blown up by the contras. The other emergency measures include suspension of the right to liberty and *habeas corpus*, the right to freedom of travel, and the rights of association and peaceful assembly. Even the most critical domestic opponents of the Sandinist regime do not accuse it of being draconian in applying these restrictions, however. And they readily agree that the torture, summary execution, and other abuses of the person that are commonplace in a number of other Central and South American states are virtually unknown.[7]

Nicaragua in mid-1983 strikes a visitor as a bundle of contradictions. There are substantial departures from the civil and political liberties that North Americans take for granted, but the regime's opponents are not afraid to speak their minds. *La Prensa* is hobbled but not muzzled; its editors feel that it is still worth their while to continue publication. There is a functioning independent human rights commission (as well as a regime-sponsored commission) that copiously documents what it considers to be the regime's abuses. Opposition parties continue—warily—to criticize the Sandinistas. An important part of the Catholic hierarchy (including the outspokenly confrontational Archbishop Obando y Bravo) openly opposes the Sandinistas; other influential churchmen (and women), including many of the Protestant pastors who work among the Miskitos and the English-speaking black population of the Atlantic coast, strongly support the regime.

Although the Sandinistas hold a majority of seats in the 51-

[7] For a balanced and thorough account of the state of human rights in Nicaragua, compiled from a wide variety of sources including the U.S. Department of State and the Permanent Commission on Human Rights (a Nicaraguan organization avowedly in opposition to the regime), see *Nicaragua: Comments on the Nicaraguan Government's Report to the U.N. Human Rights Committee*, issued by The Lawyers Committee for International Human Rights, New York, March 1983.

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member Council of State that makes Nicaragua's laws, their practice is to legislate by a consensus that includes the representatives of the opposition parties and of the social and economic organizations (trade unions, chambers of commerce, farmers' organizations, etc.) that are not Sandinist. When draft legislation meets with opposition, it is modified until it gains general approval. Even severe critics of the Sandinistas concede that the Council (whose members are each elected by their particular organizations) has thus far functioned as a genuinely deliberative and pluralist legislative body. Finally, it should never be forgotten that Nicaragua under the Sandinistas is no longer a state in which the bulk of the population is terrorized by its own armed forces. In that respect it is nothing like a repressive as some of its neighbors.

If Nicaragua is less repressive than many other Latin American states, it is also far less repressive than the Soviet satellites in Eastern Europe to which the Reagan Administration routinely compares it. The comparison with Eastern Europe is also on the minds of the Sandinist leaders themselves. In private conversations they indicate that they are fully aware of the danger that the so-called Patriotic Revolutionary Front, the governing coalition of parties including their own (itself confusingly bearing the label of front—the Sandinista National Liberation Front, or FSLN), will degenerate into a fig-leaf organization in which the lesser parties play only token roles, like the patently bogus "fronts" that mask communist power in Eastern Europe.

They are also well aware that, because they reject liberal standards for civil and political liberties, they may find themselves on a slippery slope in which increasing pressure from abroad will impel them to impose increasingly severe restrictions at home and thus alienate many who now support them. They insist that they want to escape this dilemma and to move in the direction of a more open and pluralistic society. At the same time, however, they say that while they welcome "constructive" dissent, their society is still too fragile to withstand the corrosive effects of criticism based on deliberate misinformation.

The message is familiar. It has been heard many times, and not only from the leaders of developing societies. Nearly all politicians welcome dissent—until they perceive it as undermining their personal position or otherwise making it more difficult for them to govern. Politicians professing democratic aims are most severely tested, of course, when the goals of pluralism and efficiency directly conflict. Many—particularly those who seek to transform their societies—fail the test and opt for efficiency at the expense of

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pluralism. They are especially prone to do so when they see themselves facing a severe external threat. Alas, there is no reason for optimism that the present leaders of Nicaragua will move in the direction of a more liberal society. Very few leaders of impoverished Third World countries (even those who lack any far-reaching social vision) have done so.

Yet that does not mean that Nicaragua will inevitably go the way of Cuba. There are, indeed, some Sandinistas who would like to move in that direction. Humberto Ortega, the Minister of Defense who spent years in Cuba while exiled under Somoza, said in a speech to the armed forces in August 1981 (a speech to which U.S. officials constantly refer) that Sandinism and Marxism-Leninism are one and the same. But many other Sandinist leaders would disagree. They say that they are Marxists, but Christians as well—indeed, some are Catholic priests—and that while Marxism gives them a means of analyzing social forces, Christianity gives them a set of goals. They reject the coercion inherent in Leninist practice.[8]

Nicaragua today strikes a visitor as being no more easily comparable with Cuba or Czechoslovakia than with Mexico—whose revolution a generation and a half ago (we too often forget) also seemed profoundly frightening to North Americans and which is still today ruled by a single dominant party. And if there are no grounds for optimism that it will evolve in the direction of Western parliamentary democracy, there is no firmer basis for predicting that it will slide very much farther down the slope that ends in a cruel and monolithic totalitarianism. Certainly Nicaragua now is not the repressive communist dictatorship that figures in so many of President Reagan's speeches. North Americans and Western Europeans long resident there find simply bewildering the Administration's characterizations and the blatantly dual standard that it employs when it compares Nicaragua with other states of the region. Roberto Cardenal, one of the senior editors of *La Prensa*, might have had the Reagan Administration in mind as well as the U.S. Congress when he told our visiting group: "When your Senators and Congressmen come down here, they are interested in their own politics, not in ours."

[8] One of the most bewildering aspects of revolutionary Nicaragua is its complex structure of government. The FSLN is not a party in the conventional (either Western or Soviet) sense. It is a loose collection of individuals and of associated popular organizations, with no prescribed set of ideological tenets. The nine *Commandantes* who form the FSLN directorate are all professed Marxists, but many members of the Nicaraguan cabinet are not, and some are not members of the FSLN. The cabinet serves under the three-member "Junta of Government" (including two Sandinistas) which is the nearest thing Nicaragua has to a head of state. Laws are made by the Council of State. They are subject to veto, however, by the Junta. On more than one occasion, when the two organs have been deadlocked, the Junta has given way.

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III

The Administration's characterizations of Nicaragua's politics are not only inaccurate. They are also corrosive in their effect. "Marxist Nicaragua"—connoting a Soviet-style regime—is no more apposite today than "Marxist Portugal" was in 1975. Yet the phrase has become reality for most Americans, just as it has become a staple of the editorial writer's lexicon in even those newspapers that strongly oppose the Administration's not-so-covert war.

Similarly, the Administration's critics in Congress seem to feel an obligation to season their speeches opposing an increased U.S. military involvement with blanket denunciations of the Nicaraguan government. They do so, undoubtedly, for self-protection, so as not to appear naïve, or "soft on communism." Surely, they reason, the importance of their central objective—halting a potentially disastrous military adventure—is justification enough for their uncritical acceptance of a caricature version of the complex and ambiguous Nicaraguan reality.

The tactic is doubly misguided. Leaving aside its intellectual shoddiness, it has two harmful political effects. First, characterizing the Sandinist regime as merely another communist dictatorship and tool of Soviet policy does in fact make it easier for the Administration to gain public and congressional acquiescence for escalating the scale of war against it. Second, it makes it more difficult for legislators to object to other policies the Administration has directed against the Managua government.

These are in the economic sphere. The Administration has denied Nicaragua access to credits available from U.S. official sources, and it has made a major and largely successful effort to cut off Nicaragua's access to funds it might otherwise receive from the three relevant international financial institutions—the World Bank, the International Monetary Fund, and the Inter-American Development Bank. The United States has traditionally been the principal market for virtually all of the Nicaragua's exports. Last May the Administration reduced by 90 percent Nicaragua's quota for sugar imports into the United States, severely crippling Managua's ability to earn foreign exchange. And over the past two years Nicaragua has found fewer U.S. customers for some of its other export products, another result of the general climate of hostility that the Reagan Administration has engendered.

The combination of restrictions on its ability to borrow abroad and a diminished U.S. market for its exports has made Nicaragua critically short of hard currency. That has made it difficult to obtain

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spare parts and replacements for machinery made in the United States or in other Western countries. The result is that at all levels of Nicaragua's predominantly agricultural economy—on the many big estates still in private hands, on the very large numbers of smaller private farms, on the rural cooperatives, and on land once belonging to the Somoza family and now made into state farms (20 percent of total farming land)—there are tractors, harvesters, crop-dusting aircraft, and other machines standing idle rather than productively employed. Moreover, a principal tactic of the contras has been to destroy agricultural resources. They have leveled farm buildings and warehouses, killed livestock, and burnt many acres of coffee bushes (especially costly, since new ones require five years growth before bearing fruit). All these factors have substantially diminished both Nicaragua's export earnings and its supplies of foodstuffs for domestic consumption. And the need to ration hard currency has led as well to shortages of medicines and petroleum products.

These shortages have made life in Sandinist Nicaragua more grim than it otherwise might be. They have led to grumbling and to disenchantment with the regime, especially among businessmen and the owners of large farms—undoubtedly the effects that the Reagan Administration had hoped they would have.

Yet the Administration would be ill-advised to count these results a success. Almost certainly they will not be sufficient to undermine the regime. Unless conditions of life grow very much harder, the Sandinistas will retain the loyalty and the support of the large number of peasant smallholders and salaried rural and urban workers who still judge themselves to be net gainers from the economic, social, and psychological effects of the revolution. Indeed, for the short term, at least, the regime is likely to use these hardships, as it has the depredations of the contras, to win greater loyalty from them.

On the other hand, the disaffection of businessmen and wealthy farmers may lead them to abandon the country, thus giving over their property to state control and making both the economy and the political system just that much less pluralistic. In any event, the more militant members of the regime will see in these externally imposed hardships a justification for tightening discipline and increasing central control. And enforced isolation from the Western market economies will lead to greater dependence on the Soviet Union and its allies.

It is probable, therefore, that the policies now being pursued by the Administration will lead to exactly the outcome that will be

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most harmful to the long-term interests of the United States. The wars on the borders cannot succeed in toppling the Sandinist government without the direct involvement of U.S. armed forces. The contras are well trained and well armed, but they are far outnumbered by the Sandinistas, who have at their disposal 25,000 regular troops augmented by 55,000 reservists and militia personnel whose job it is to defend the districts where they live and work. Many of the latter have only rudimentary training and inadequate weapons, but they have thus far borne most of the burden of the fighting, and they seem to have acquitted themselves reasonably well.

Despite the intense effort the Pentagon is now making to arm and train the Honduran army, it is unlikely that the impressed peasant boys who make up a high proportion of its ranks will sufficiently share General Alvarez's crusading zeal to fight bravely on Nicaraguan soil. The Hondurans would almost certainly not be able to launch an effective attack without substantial and highly visible U.S. assistance. Because their doing so—even in response to Nicaraguan border-crossing retaliatory blows against the contras—would be a clear violation of the charters of the Organization of American States and of the United Nations, they and their U.S. patrons would surely be branded as aggressors and ordered to desist. While it is conceivable that the Reagan Administration might seek to evade such strictures, it is not likely that the Congress would long allow it. The Sandinistas would therefore survive, wounded but not killed, and more inclined to seek protection from Moscow and Havana.

The Administration's economic measures cannot fail but be similarly ineffective at exerting decisive pressure on Managua. Thus the only conceivable result of American policies, if they continue on their present course, will be a Nicaragua domestically more militarized, more monolithic, and more repressive than today, and in its foreign policy more stridently anti-American, more dependent on the Soviet Union and on Cuba, and therefore more willing to do their bidding.

IV

In much of the discourse about Central America these days—in the off-the-record musings of senior American officials, in the editorials of newspapers that approve the Administration's policies, and in the speeches of Congressmen and Senators—the point is made that the United States has a right, even a duty, to control events "in its own backyard." That is how most of the world expects

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a superpower to behave, we are told, and it is how one should behave. A principal contention of the foreign policy section of the Republican Party's 1980 platform was that the Carter Administration had critically weakened the United States by not acting like a superpower; among other derelictions it had allowed the "Marxist Sandinista takeover" of Nicaragua.

Those who advance arguments like these often go on to make an equation between Central America and Eastern Europe. Just as the Soviet Union should not be expected to tolerate a potentially hostile (because ideologically divergent) regime in any of the countries on its periphery, they assert, the United States should not be expected to do so in Central America. In each instance, the security of a superpower is at stake.

The implication of this equation is profoundly disturbing. It means that after nearly four decades of political combat, Americans are content to see their country equated with its principal adversary along two crucially important dimensions—the degree to which its security may be threatened by the very existence of ideologically divergent neighbors, and the amount of license it should have to bring pressure to bear upon them. If Americans indicate that they expect their government to behave the way the Soviet government behaves, and for the same reasons, why should foreigners expect more of it? There are many young and not-so-young persons in Western Europe and the Third World who profess not to be able meaningfully to distinguish between the United States and the Soviet Union. Both seek hegemony. Neither will tolerate political diversity within its sphere of influence. Neither deserves aid or comfort or political support.

Yet the equation is not valid. The pressure that Moscow has applied against Poland, like its invasions of Czechoslovakia and Hungary earlier, has been universally condemned. Moscow reacted so harshly because political change within its sphere *does* threaten the Soviet Union—because the Soviet regime, like those of Eastern Europe, lacks ultimate political legitimacy among those it presumes to govern. If workers in Warsaw or Prague succeed in changing their governmental structures, workers in Leningrad or Kiev or Tashkent would be likely to try to follow their example. Only by assuring that fundamental questions are never asked on its periphery can the Soviet regime assure its survival within its own homeland.

The threat to Soviet power is thus profound and primarily political. A Poland or Czechoslovakia whose population had enjoyed genuine self-determination would threaten Moscow whether or not

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it were armed. It is difficult to imagine a greater indictment of the Soviet regime two-thirds of a century after Lenin's seizure of power.

By contrast, political change in Central America poses no political threat to the United States, because the legitimacy of its governing structure is not in doubt. Revolutionaries who throw off a repressive regime in Nicaragua or Guatemala do not call North American institutions into question.

Nor do they pose a truly serious military threat. Even in the worst (and least probable) case—the establishment of Soviet bases on its territory—Nicaragua could not seriously harm the United States. The Soviets would be operating with long and vulnerable lines of supply. If they were ever to set up a base in Central America or the Caribbean for military actions against the United States, its allies (including other Latin American nations), or the strategic shipping lanes, the United States could deploy overwhelming power against it. Compared to the resources Moscow would have to devote to maintaining a base in the region, the cost to the United States of neutralizing it would be slight. Moreover, in an era of intercontinental missiles, firing nuclear weapons from nearby bases conveys no real benefit. And there are no plausible ways in which the Soviets could profit by attacking North America with conventional weapons.

The issue of Soviet (or even Cuban) bases is a straw man, however. Despite the U.S. Administration's rhetoric, no one within it expects that bases will be established. A more probable development might be a Nicaraguan or other revolutionary Central American state without foreign bases but armed to the teeth with Soviet-supplied military equipment.[9] Such a state would not threaten the United States. But nor could it realistically threaten its neighbors. Under the Rio Treaty of 1947 the United States is committed to come to the aid of other American states under military attack. Does anyone doubt that it would do so if the aggressor were Nicaragua? U.S. officials complain about the quantity of Soviet-bloc arms Nicaragua is receiving—and then admit privately that in the absence of a full-scale invasion from Honduras there is not the slightest chance that the Sandinistas will risk their own downfall by using their new weapons to strike across the border.

[9] Nicaragua, it should be noted, is nowhere near this position. Its air force is still substantially weaker than that of Honduras. It would remain so even if it were to receive the ten Soviet MiG fighters that are allegedly waiting to be flown in from Cuba. And while its army may have received substantial quantities of tanks and other heavy military equipment from Moscow and its allies (the U.S. government alleges this to be the case, but has not specified the quantities), it still suffers from serious deficiencies. One notable deficiency is in the arming of the reservists and militiamen upon whom it relies for the bulk of the fighting on the Honduran border. Many of those I saw were armed only with antique World War II rifles that give them nothing like the firepower of the M-16-armed contras.

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They sometimes go on to argue, however, that even if the probability of an overt Nicaraguan attack on other Central American states is negligible, the very existence in their midst of a heavily armed, Soviet-supported Nicaragua would be profoundly unsettling and ultimately destabilizing. There may be substance to this fear. But their supposition points more to the underlying lack of legitimacy, and therefore the fragility, of the governments of Honduras, Guatemala, and El Salvador (Costa Rica, Panama, and Belize have no such problems) than it does to any logical chain of causation. Popular governments with the assurance of ample military support from the United States in the event they are the victims of aggression scarcely need fear Nicaragua.[10]

The real issue, of course, is not the political or military threat that Nicaragua poses to the United States, or even its potential military threat to its neighbors, but the political threat represented by its revolutionary ideology and its willingness to support insurgent movements elsewhere in Central America, most notably in El Salvador. I have called this a political rather than a military threat because no one has yet provided evidence that the flow of arms from Nicaragua has been of sufficient magnitude significantly to affect the course of the Salvadoran civil war. For their part, of course, the Sandinistas do not publicly acknowledge that they have supplied arms. If Washington had firm evidence of any shipments, they state, surely it would release it. Apparently good evidence does not exist. Knowledgeable U.S. officials admit that despite intensive intelligence collection efforts and reliable information that substantial quantities of Soviet-supplied light infantry weapons have reached Nicaragua, very few arms shipments to El Salvador have actually been observed, and that months go by when none at all are detected. They also concede that the Salvadoran guerrillas have had such easy access to arms from a range of other sources that at no time since 1981, and probably not before, have they been critically dependent on supplies that might have reached them from Nicaragua.

[10] It is worth noting, incidentally, that all three of these countries that cause the Administration so much evident concern are considerably more populous than the Nicaragua whose military prowess will supposedly destabilize them. Their populations figure in the Administration's threat scenarios in yet another way, however. They will be the source of refugees—millions, the President has suggested—*who will flood into the United States and sorely strain its social fabric. This projection seems* more an effort to play upon racist fears than to depict reality. The refugees who fit the Administration's scenarios—those who flee revolutionary regimes—are likely to be relatively few and from the educated middle and upper classes; like their predecessors of the Cuban exodus of 1959, they would fit easily and productively into U.S. society. On the other hand, the military confrontation that the Administration seems intent on fostering would produce precisely the kind (although probably not the quantity) of refugees it presumes to fear: peasants fleeing repressive authoritarian regimes and a widening war.

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Administration officials insist, however, that the Sandinistas have nevertheless played an important role in the Salvadoran insurgency. Managua has been a safe haven where the civilian politicians and the military leaders of the insurgency can meet to plan and coordinate their strategies, from where they can send instructions to their fighting forces in the field, and where they can receive advice from Nicaraguan—and, no doubt, Cuban and Soviet—comrades. The Sandinistas acknowledge this role. They enjoyed a similar haven and similar facilities in Costa Rica during their revolution against Somoza. They say that by assisting the Salvadorans now they are repaying a debt. And they are well aware that they themselves provide models for the Salvadorans and for revolutionaries in other Central American countries—living proof that movements such as theirs can triumph over a government that, at least until its last months, enjoyed substantial support from the United States.

It is likely that this role and the way the Sandinistas insist upon playing it, more than any other factor, has made Nicaragua the object of the Reagan Administration's outrage. But a visitor to Managua and to Washington during the late summer of 1983 must come away baffled by the Administration's obsession with Nicaragua. As supporters of the side that Washington opposes in the Salvadoran struggle, the Sandinistas are undoubtedly an annoyance and an impediment. But their contribution has scarcely been decisive. To behave as if it were, to assert that under their leadership Nicaragua poses a dire threat to the stability of the Hemisphere and to the security of the United States, and on that basis to launch an unacknowledged but deadly war against them, evinces a frame of mind that future historians are likely to discuss more in terms of pathology than in those of logic.

It may be that the Administration is acting primarily from frustration born of the dreary war in El Salvador. "Our side" there has been guilty of atrocities that neutral observers feel far exceed in horror and in scale those of their opponents. Moreover, their forces have thus far exhibited considerably less zeal and fighting ability. How natural it is in conditions of moral, political, and military ambiguity to attribute one's failures to the malevolence of outsiders. And how much easier it must be to ratchet up the military and economic pressure on Nicaragua than to make real progress in the messy war on the other side of the Gulf of Fonseca.

V

Public statements about the crisis in Central America by President Reagan and his principal advisers contain no hint that they have

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any clear notion of what sort of outcomes the United States can realistically hope to bring about, and what outcomes might prove truly harmful.

In considering this range of outcomes, they might usefully reflect on what it would mean if they were to win their war against the Sandinistas and the contras were to come to power. The contras would have done so only with considerable help from the Honduran armed forces, and almost certainly from our own as well. Few Nicaraguans would regard as liberators a mercenary army made up of many members of the same *Guardia Nacional* that had terrorized their country for Somoza. The rest of the world would surely consider them American puppets, and it would hold the United States accountable for their actions both at their moment of victory and afterward. Many Sandinistas would retain their arms and melt into the mountains to continue the war.

Meanwhile, the United States would have to prevent the Guard from committing excesses, no easy task. It would also have to hold the ring while some semblance of democractic politics was reestablished. Who could participate? What of the Sandinistas? What of the parties to their left? Would Somocistas flooding back from Miami be permitted to reclaim their estates from the thousands of peasants now farming them? Since they funded the contras until the CIA stepped in, would they not demand—and receive—a return on their investment? The United States would face a political dilemma like the one the Soviet Union faces in Afghanistan. Unlike in Afghanistan, however, there would be international journalists in every urban *barrio* and rural community. (After all, we would not have overthrown the Sandinistas to have a closed society.) They would remind the Administration of its fine words about democracy. Could the United States acquit itself honorably? The odds are against it.

If the Administration has given no consideration to scenarios such as this, it is essential that it should do so, and that it should discuss them frankly with the Congress and with the American people. If it does, it is likely to conclude that the United States could well face far more difficult problems in Nicaragua than coexisting with the Sandinist regime.

It may be asking too much to expect such dispassionate reflection from Mr. Reagan and his colleagues, however. They are too committed. They are unlikely, unassisted, to find their way out of the web their paranoia has spun. If the United States is to be diverted from its present collision course with Nicaragua, the impetus for a change in direction must come from other sources—from the Congress, from the National Bipartisan Commission on Central

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America recently convened under the leadership of Henry Kissinger, and perhaps also from friendly governments, especially from U.S. allies in Europe and elsewhere in Latin America.

Potentially the most important, of course, is the Congress, for only it has the power to do more than warn and cajole. It can if it wishes deny the Administration the resources it needs for the covert operations that constitute the core of its war against Nicaragua. There are many members of both Houses of Congress—a majority among Democrats and a considerable minority among Republicans—who are known to feel that the Administration's policies are profoundly misguided. The courage of their convictions will be tested at just the time this journal reaches its readers' hands, in late September 1983, when both Houses will consider bills cutting off funds for the covert war. Considerable courage will be required. In an atmosphere poisoned by allegations that those who oppose the President's policies are witting or unwitting appeasers, legislators fear being tarred with the brush of having "lost" Central America to communism by tying the Administration's hands. Their inclination, therefore, is to have it both ways by going on record with an expression of doubt but leaving the ultimate responsibility to the President. Nevertheless, at this writing there seems to be a substantial chance that congressional action to deny the President funds will be successful.

VI

Yet legislated prohibitions are no substitute for constructive policy alternatives. It is in the seach for alternatives that the Kissinger Commission can play a role. Although it is not scheduled to present its recommendations until February, the Commission (or, if it is deadlocked, some of its members) might earlier reach some preliminary conclusions. Initially, its most important task will be to form its own perspective on the nature of American interests—and threats to those interests—in the region. To do so it should seek the facts for itself, not receive them solely through the filters of the Administration: there is every reason to believe that reporting from Central America by both the Department of State and the Central Intelligence Agency has been biased by the all-too-familiar predilection of junior officers to send up the line what they know their seniors want to hear.

One thing their seniors have evidently not wanted to hear about is the existence of possibilities for diplomatic solutions. Indeed, one of the most striking characteristics of the Administration's policies toward Central America—and the Nicaraguan policy that has now

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become its core—is how small a role diplomacy seems to have played. The likelihood is that the White House does not want a diplomatic settlement with Managua. How could it justify concluding an agreement with a government that it has said cannot be trusted to keep one?

Mr. Kissinger has said that his Commission will not get involved in negotiations; presumably it sees its task as primarily directed to the long-term political relationship between the United States and Central America and above all to what the United States might do with others to improve social and economic conditions there. Such a view may well be appropriate. But as a gifted negotiator Mr. Kissinger should not hesitate to point where negotiations might lead. Since 1981 the United States has approached the Sandinistas entirely with sticks, not with carrots. On several occasions the Nicaraguans have reportedly offered assurances that they would send no arms to El Salvador. But each time the Administration evidently decided not to take the steps—never very large ones—that the Nicaraguans had asked in return. On one such occasion, in March 1981, Managua requested a resumption of U.S. economic assistance and as a token of its good faith unilaterally suspended shipments to the Salvadoran insurgents. Inexplicably, the State Department acknowledged that the arms transfers had indeed stopped—and then went on to announce that the Administration had nevertheless decided to maintain, pending a later review if the "favorable trends" continued, its ban on economic aid. The ban remained and the shipments resumed.

This is not the place for reviewing the subsequent negotiating record with Nicaragua or for discussing the possibilities of a negotiated resolution of the essentially civil conflict in El Salvador.[11] Yet it may well be that progress can only be made if the two sets of negotiations are linked. It is obviously the case that a settlement in El Salvador would simplify the task of reaching a U.S.-Nicaraguan understanding, for Nicaragua's role in the Salvadoran conflict is the ostensible cause of the Reagan Administration's hostility. But a negotiation between Washington and Managua could conceivably produce a reciprocal agreement, an explicit Nicaraguan undertaking to end all material support for the guerrillas in El Salvador in return for an explicit U.S. commitment not to assist armed groups opposing the Sandinist regime. Surely such an agreement could be

[11] For a review of the U.S.-Nicaraguan negotiating record since 1981, see Jay Peterzell, *Reagan's Secret Wars*, Washington: Center for National Security Studies, 1983, pp. 28–30. For a suggestive discussion of the possibilities for a negotiated solution to the Salvadoran conflict, see Piero Gleijeses, "The Case for Power Sharing in El Salvador," *Foreign Affairs*, Summer 1983, pp. 1048–1063.

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adequately verified by a regional peacekeeping mechanism. It might in turn lead to a situation where neither side in El Salvador sought a military solution, and thus to an eventual compromise political settlement.

Really to heal the rifts of the region, however, there must ultimately be a multilateral negotiation, involving all the states of Central America. Such a negotiation is in fact already under way under the auspices of the so-called Contadora powers—Mexico, Venezuela, Colombia and Panama. Their task is to work out ground rules for coexistence. Those rules must be based upon two premises. One is that the export of armed revolution—or counterrevolution—is impermissible.

The second is that it is realistically impossible to erect a barrier to the transmission of revolutionary ideas. With all its flaws, Sandinist Nicaragua is likely to remain a magnet and a model for men and women elsewhere in Central America who would transform repressive oligarchical societies. Those who fear the force of that model should be constrained to look to the inequities in their own societies, rather than—as would Honduras' General Alvarez—seek temporary safety in a holy war.

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Robert S. McNamara

THE MILITARY ROLE OF NUCLEAR WEAPONS: PERCEPTIONS AND MISPERCEPTIONS

The public, on both sides of the Atlantic, is engaged in debate on controversial questions relating to nuclear weapons: the desirability of a nuclear freeze; the deployment of Pershing II and cruise missiles to Western Europe; the production of the MX missile and the B-1 bomber; the development of the neutron bomb; and proposals to reduce the risk of nuclear war by such measures as the withdrawal of tactical nuclear weapons from forward areas and the declaration of a strategy of "no launch on warning."

These questions, however, cannot be thoughtfully discussed, and certainly not adequately answered, until there has been general agreement on the military role of nuclear weapons. If there is confusion in the public mind on this matter, it only mirrors the disagreement among those most familiar with such weapons and their implications.

I would ask the reader momentarily to guess whether the following three statements come from leaders in peace movements:

> At the theatre or tactical level any nuclear exchange, however limited it might be, is bound to leave NATO worse off in comparison to the Warsaw Pact, in terms both of military and civilian casualties and destruction . . . . To initiate use of nuclear weapons . . . seems to me to be criminally irresponsible.

> I am in favor of retaining nuclear weapons as potential tools, but not permitting them to become battlefield weapons. I am not opposed to the strategic employment of these weapons; however, I am firmly opposed to their tactical use on our soil.

> The European allies should not keep asking us to multiply strategic assurances that we cannot possibly mean, or if we do mean, we should not want to execute because if we execute, we risk the destruction of civilization.

The answer is that none do. The first is by Field Marshall Lord Carver, Chief of the British Defence Staff from 1973 to 1976; the second by General Johannes Steinhoff, former Chief of Staff of the

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Robert S. McNamara was Secretary of Defense from 1961 to 1968 and President of the World Bank from 1968 to mid-1981. Copyright © 1983 by Robert S. McNamara.

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Federal German Air Force; and the third by former Secretary of State Henry A. Kissinger.[1]

And, if one were to accept all three propositions, there follows logically the statement of Admiral Noel A. Gayler, former Commander in Chief of U.S. forces in the Pacific: "There is no sensible military use of any of our nuclear forces. Their only reasonable use is to deter our opponent from using his nuclear forces."[2]

On the other hand, a number of statements by senior officials in the Reagan Administration have suggested that a nuclear war could be limited. Secretary of Defense Caspar Weinberger contends that: "The nuclear option [i.e., early first use of nuclear weapons] remains an important element in deterring Soviet [conventional] attack."[3] And in the same vein, former Secretary of State Alexander Haig, also a former NATO Supreme Commander, concedes that it is unlikely nuclear war could be limited, but argues that "adoption of a policy of no first use would remove a threat which deters Soviet aggression and, therefore, would increase the danger of war."[4]

More broadly, President Reagan—in proposing a program to develop an anti-ballistic missile defense in March 1983—said that "our objective should be to move to an impenetrable defense against Soviet nuclear strikes, thereby totally neutralizing their offensive nuclear forces." He added that it would be in our interest for the Soviets to possess a similar defense, thus stating in effect that the Soviet Union and the United States would both be better off if nuclear weapons were totally eliminated. (Under such circumstances, NATO would depend, of course, solely on conventional forces for deterrence of Soviet aggression.) And on June 16, 1983, the President made an even more categorical statement in favor of a non-nuclear world: "I pray for the day when nuclear weapons will no longer exist anywhere on earth."[5]

A similar thought has been expressed by Melvin Laird, Secretary of Defense in the Nixon Administration: "A worldwide zero nuclear option with adequate verification should now be our goal. . . . These weapons . . . are useless for military purposes."[6]

These quotations from European and American political and military leaders show the depth of doubt and division that exist

[1] Lord Carver's statement is in *The Sunday Times* (London), February 21, 1982; General Steinhoff's is quoted in Hans Gunther Brauch, "The Enhanced Radiation Warhead: A West German Perspective," *Arms Control Today*, June 1978, p.3; and Mr. Kissinger's in Henry A. Kissinger, "NATO Defense and the Soviet Threat," *Survival*, Nov./Dec. 1979, p. 266 (address in Brussels).

[2] Congressional Record, 97th Cong., Ist sess., July 17, 1981, Washington: GPO, 1981, p. S 7835.

[3] Secretary of Defense, *Annual Report to the Congress, FY 1984*, U.S. Department of Defense, February 1, 1983, Washington: GPO, 1983.

[4] Speech in Washington, April 6, 1982.

[5] *The New York Times*, June 17, 1983.

[6] *The Washington Post*, April 12, 1982.

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today. It is clear that there are three quite contradictory and mutually exclusive views of the military role of nuclear weapons:

—Such weapons can be used in a controlled or selective way, i.e., they have a war-fighting role in defense of the NATO nations. Therefore, a strategy of "flexible response," which has been the foundation of NATO's war plans since 1967, including possible "early first use of nuclear weapons," should be continued. Underlying this policy is the belief that NATO can achieve "escalation dominance"—i.e., NATO can prevent the Warsaw Pact from extending the use of nuclear weapons beyond the level NATO chooses, with the implication that a nuclear war once started can remain limited.

—Any use of nuclear weapons by the United States or the Soviet Union is likely to lead to uncontrolled escalation with unacceptable damage to both sides. Therefore, nuclear weapons have no military use other than to deter first use of such weapons by one's adversary.

—Although initiating the use of nuclear weapons is likely to lead to uncontrolled escalation, with devastation of both societies, the threat of such use by NATO acts as a deterrent to both Soviet conventional and nuclear aggression. It is not practical to build up an equivalent deterrent in the form of conventional forces; therefore the threat of early use of nuclear weapons should never be withdrawn.

I propose to examine these views by exploring four questions:

—What is NATO's present nuclear strategy and how did it evolve?

—Can NATO initiate the use of nuclear weapons, in response to a Soviet attack, with benefit to the Alliance?

—Even if the "first use" of nuclear weapons is not to NATO's advantage, does not the threat of such use add to the deterrent and would not the removal of the threat increase the risk of war?

—If it is not to NATO's advantage to respond to a Soviet conventional attack by the use of nuclear weapons, can NATO's conventional forces, within realistic political and financial constraints, be strengthened sufficiently to substitute for the nuclear threat as a deterrent to Soviet aggression?

II

Questions of the military utility of nuclear weapons are addressed most realistically in the context of the possibility of warfare in Europe. Throughout the postwar period the security of Europe has been the centerpiece of U.S. foreign policy; it is likely to remain so indefinitely. In no other region have the two great powers deployed

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so many nuclear weapons. In no other part of the world are military doctrines which specify the use of nuclear weapons granted such wide-ranging credibility.

The use of nuclear weapons has been an integral part of NATO's military strategy since virtually the inception of the Alliance.[7]

Shortly after the North Atlantic Treaty was ratified in 1949, estimates were made of the size of the Soviet military threat as a basis for developing NATO's military strategy and force structure. Believing that the U.S.S.R. could muster as many as 175 divisions against Western Europe, NATO military planners concluded that the Alliance would require 96 of its own divisions—which were larger than those of the Soviet Union—in order to mount an adequate defense. This estimate was accepted by the NATO ministers in February 1952 at their annual meeting in Lisbon.

It soon became clear, however, that the member nations were not willing to meet these so-called Lisbon force goals. Instead, the Alliance turned consciously to nuclear weapons as a substitute for the financial and manpower sacrifices which would have been necessary to mount an adequate conventional defense.

That budgetary considerations were a key factor in NATO's decision to rely on nuclear weapons is evident from the following statement by then Secretary of State John Foster Dulles:

> The total cost of our security efforts (and those of our Allies) . . . could not be continued long without grave budgetary, economic, and social consequences. But before military planning could be changed the President and his advisers . . . had to make some basic policy decisions. This has been done. The basic decision was to depend primarily upon a greater [nuclear] capacity to retaliate instantly by means and at places of our own choosing. As a result it is now possible to get and to share more basic security at less cost.[8]

Nor was this new emphasis only rhetorical. A Presidential Directive (NSC-162/2) ordered the Joint Chiefs of Staff to plan on using nuclear armaments whenever it would be to the U.S. advantage to do so. Changes were made in the organization and plans of the U.S. Army so that it would be better able to fight on nuclear battlefields. By late 1953, substantial numbers of tactical nuclear weapons—artillery shells, bombs, short-range missiles, nuclear mines, and others—were beginning to be deployed in Europe. The buildup of NATO tactical nuclear weapons continued steadily, peaking in the mid-1960s at around 7,000. Although large numbers of conven-

[7] An excellent brief history of NATO's conception of the role of nuclear weapons is presented in J. Michael Legge, "Theater Nuclear Weapons and the NATO Strategy of Flexible Response," Santa Monica (Calif.): RAND Corporation, R-2964-FF, April 1983. For this section I have also drawn on unpublished writings of David A. Rosenberg and David Schwartz.

[8] John Foster Dulles, "The Evolution of Foreign Policy," Department of State Bulletin 30, No. 761, January 25, 1954, p.108.

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tional forces were retained on the continent, until the early 1960s their only purpose was seen to be to contain an attack long enough for nuclear strikes to defeat the aggressor.

If there were any doubts about the seriousness of NATO's nuclear threats in the 1950s, they should have been dispelled by the following statement by General Bernard Montgomery, the Deputy Supreme Allied Commander in Europe, who said in late 1954:

> I want to make it absolutely clear that we at SHAPE are basing all our operational planning on using atomic and thermonuclear weapons in our own defense. With us it is no longer: "They may possibly be used." It is very definitely: "They will be used, if we are attacked."[9]

By December 1954, the NATO ministers felt comfortable enough with the nuclear strategy to reduce the force level objective from 96 to 30 active divisions. Two years later, the Alliance formally adopted the policy of "massive retaliation" in a document known as MC 14/2.

Whether the balance of nuclear forces between the Warsaw Pact and NATO, as it was developing during the mid-1950s, justified adoption of NATO's nuclear strategy is arguable. But its merit had become questionable to many by the early 1960s. Soon after taking office in January 1961, the Kennedy Administration began a detailed analysis of the policy's strengths and weaknesses.

These studies revealed two major deficiencies in the reasoning that had led to the adoption of MC 14/2: first, the relative balance of NATO and Warsaw Pact conventional forces was far less unfavorable from a Western perspective than had been assumed (the power of Soviet forces had been overestimated and that of NATO forces underestimated); and second, there was great uncertainty as to whether and, if so, how nuclear weapons could be used to NATO's advantage.

President Kennedy, therefore, authorized me as Secretary of Defense to propose, at a meeting of the NATO ministers in Athens in May 1962, to substitute a strategy of "flexible response" for the existing doctrine of "massive retaliation."

The new strategy required a buildup of NATO's conventional forces, but on a scale that we believed to be practical on both financial and political grounds. Instead of the early massive use of nuclear weapons, it permitted a substantial raising of the nuclear threshold by planning for the critical initial responses to Soviet aggression to be made by conventional forces alone. The strategy was based on the expectation that NATO's conventional capabilities

[9] Address to the Royal United Services Institute, London; cited in Robert E. Osgood, *NATO: The Entangling Alliance*, Chicago: University of Chicago Press, 1962, p.110.

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could be improved sufficiently so that the use of nuclear weapons would be unnecessary. But, under the new doctrine, even if this expectation turned out to be false, any use of nuclear weapons would be "late and limited."

Our proposal of the new strategy was the result of the recognition by U.S. civilian and military officials that NATO's vastly superior nuclear capabilities, measured in terms of numbers of weapons, did not translate into usable military power. Moreover, we understood that the initial use of even a small number of strategic or tactical nuclear weapons implied risks which could threaten the very survival of the nation. Consequently, we, in effect, proposed confining nuclear weapons to only two roles in the NATO context:

—deterring the Soviets' initiation of nuclear war;

—as a weapon of last resort, if conventional defense failed, to persuade the aggressor to terminate the conflict on acceptable terms.

The proposed change in NATO's strategy met with strong opposition.

Some opponents argued that the United States was seeking to "decouple" itself from the defense of Europe. These critics shared our view that a "tactical" nuclear war in Europe would quickly escalate to a strategic exchange involving the U.S. and Soviet homelands, but they saw this danger as the primary factor which deterred Soviet aggression. Any reduction in this prospect, they argued, might cause the Soviets to believe that hostilities could be confined to Central Europe, and thus tempt them into adventures.

Other critics maintained that the proposed buildup of NATO's conventional forces was totally beyond what the Alliance would be willing to support. Still others argued that we had greatly exaggerated the dangers of limited uses of nuclear weapons.

The argument raged for five years. It was not until 1967 that NATO adopted the strategy of "flexible response," inscribing it in a document known as MC 14/3.

The revised strategy proposed to deter aggression by maintaining forces adequate to counter an attack at whatever level the aggressor chose to fight. Should such a direct confrontation not prove successful, the strategy proposed to escalate as necessary, including the initial use of nuclear weapons, forcing the aggressor to confront costs and risks disproportionate to his initial objectives. At all times, however, the flexible response strategy specified that efforts should be made to control the scope and intensity of combat. Thus, for example, initial nuclear attacks presumably would be made by short-range tactical systems in an attempt to confine the effects of nuclear warfare to the battlefield. Even so, the strategy retained the ultimate

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escalatory threat of a strategic exchange between U.S. and Soviet homelands to make clear the final magnitude of the dangers being contemplated.

"Flexible response" has remained NATO's official doctrine for more than 15 years. Its essential element, however—building sufficient conventional capabilities to offset those of the Warsaw Pact—has never been achieved. Indeed, during the late 1960s and early 1970s, the Alliance may have fallen farther behind its opponent. Although NATO has made considerable strides in improving its conventional posture in more recent years, most military experts believe that the conventional balance continues to favor the Warsaw Pact; they thus conclude that an attack by Soviet conventional forces would require the use of nuclear weapons, most likely within a matter of hours. NATO's operational war plans reflect this belief. The substantial raising of the "nuclear threshold," as was envisioned when "flexible response" was first conceived, has not become a reality.

Before turning to the question whether NATO can initiate the use of nuclear weapons—in response to a Soviet attack—with benefit to the Alliance, I should perhaps comment on the evolution of Soviet nuclear strategy over the past three decades.[10]

For much of the postwar period, Soviet military doctrine appears to have assumed that war between the great powers would include the use of nuclear weapons. Soviet publications stressed the use of both long- and intermediate-range nuclear weapons in the initial hours of a conflict, to destroy concentrations of enemy forces and the ports, airfields, and other facilities necessary to support military operations. And these publications emphasized as well the use of tactical nuclear weapons on the battlefield.

The way that Soviet soldiers trained, the protective clothing and decontamination equipment with which they were equipped, and the nature of their military exercises—which for years always included a nuclear phase—suggested that the written expressions of Soviet military doctrine constituted deadly serious descriptions of the way the U.S.S.R. planned to fight the next war.

In fact, until the mid-1960s, writings of Soviet military officials consistently maintained that the only conflict possible between the great powers was an all-out nuclear war. They asserted, moreover, that it was possible to prevail in such a conflict, and they urged the military and social preparations necessary to ensure that the U.S.S.R. emerged triumphant from any nuclear conflict. It was these writings which, in the late 1970s, were used so devastatingly

[10] Much of the following discussion is based on James M. McConnell, "The Shift in Soviet Military Development from Nuclear to Conventional," manuscript to be published in *International Security*.

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by opponents of nuclear arms control in the debate on the SALT II Treaty.[11]

By that time, however, this portrayal of Soviet military doctrine was becoming badly out of date.

Official Soviet doctrine changed slightly in the mid-1960s as Soviet writers began to admit the possibility of a "war by stages" in Europe, in which the first phase would be a conventional one. Although they asserted that this initial stage would be very short, and further noted that the conflict "inevitably" would escalate to all-out nuclear war, the previous doctrinal rigidity had been broken.

Soviet experts and military officials debated the inevitability of nuclear escalation throughout the 1960s and much of the 1970s. By the time of a famous speech of Leonid Brezhnev at Tula in 1977, the question seems to have been settled: Soviet theorists then admitted the possibility of a major protracted war between East and West in which nuclear weapons would not be used.

Indeed, the Soviets now officially maintain that they would not be the first to make use of nuclear weapons. As stated by Defense Minister Ustinov in 1982: "Only extraordinary circumstances—a direct nuclear aggression against the Soviet state or its allies—can compel us to resort to a retaliatory nuclear strike as a last means of self-defense."[12]

This is a new position for the U.S.S.R. It was first articulated by Brezhnev at the U.N. Special Session on Disarmament in June 1982. Previously, Soviet spokesmen had only been willing to say that they would not use nuclear weapons against non-nuclear powers.

Along with this shift has come the explicit and repeated renunciation of what Soviet spokesmen had declared for more than two decades: that it was possible to fight and win a nuclear war. All Soviet writers and political leaders addressing this question now solemnly declare that "there will be no victors in a nuclear war."

Does this doctrinal shift suggest that the U.S.S.R. is no longer prepared for nuclear war in Europe? Certainly not. In addition to the deployment of intermediate-range SS-20 missiles, the Soviets are busily modernizing their shorter-range nuclear-armed missiles in Europe (SS-21s, SS-22s and SS-23s). Two types of artillery tubes capable of firing nuclear charges have been seen with Soviet units in Eastern Europe in larger numbers in recent years. And there are

[11] See, for example, Richard H. Pipes, "Why the Soviet Union Thinks It Could Fight and Win a Nuclear War," *Commentary*, July 1977, p.21.

[12] D. F. Ustinov, "We Serve the Homeland and the Cause of Communism," *Izvestia*, May 27, 1982.

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now many more aircraft capable of delivering nuclear bombs deployed with Soviet forces in Europe than was the case not many years ago.

The U.S.S.R. is obviously prepared to respond if NATO chooses to initiate nuclear war. I turn, then, to the question of whether NATO can initiate the use of nuclear weapons, in response to a Soviet conventional attack, with benefit to the Alliance.

III

Doubts about the wisdom of NATO's strategy of flexible response, never far from the surface, emerged as a major issue in the late 1970s; debate has intensified in the ensuing years. The debate hinges on assessments of the military value of nuclear weapons.[13]

The nuclear balance has changed substantially since the Kennedy Administration first proposed a strategy of flexible response. Both sides have virtually completely refurbished their inventories, increasing the number of weapons of all three different types—battlefield, intermediate-range and strategic—and vastly improving the performance characteristics of both the weapons themselves and their delivery systems. Because the Soviet Union was so far behind the United States in the early 1960s, the quantitative changes, at least, appear to have been more favorable for the U.S.S.R. The ratio of warheads on strategic and intermediate-range launchers, for example, has shifted from a very great U.S. advantage in 1962 to a far more modest advantage at present.

As the Soviet Union moved toward and then achieved rough parity in strategic and intermediate-range forces, a crucial element of the flexible response strategy became less and less credible.

It will be recalled that the strategy calls for the Alliance to initiate nuclear war with battlefield weapons if conventional defenses fail, and to escalate the type of nuclear weapons used (and therefore the targets of those weapons), as necessary, up to and including the use of strategic forces against targets in the U.S.S.R. itself. Given the tremendous devastation which those Soviet strategic forces that survived a U.S. first strike would now be able to inflict on this country, it is difficult to imagine any U.S. President, under any circumstances, initiating a strategic strike except in retaliation against a Soviet nuclear strike. It is this reasoning which led to the much criticized statement by Henry Kissinger in Brussels in 1979,

[13] For this section, I have drawn on *Arms Control and National Security*, Washington: Arms Control Association, 1983; the unpublished writings of William W. Kaufmann and Leon V. Segal; and recent discussions with military and civilian experts, not all of whom agree with one another.

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quoted earlier. Kissinger's speech was criticized not for its logic, however, only for its frankness.

In short, a key element of the flexible response strategy has been overtaken by a change in the physical realities of the nuclear balance. With huge survivable arsenals on both sides, strategic nuclear weapons have lost whatever military utility may once have been attributed to them. Their sole purpose, at present, is to deter the other side's first use of its strategic forces.

Thus, given that NATO would not be the first to use strategic nuclear weapons, is it conceivable that the first use of tactical weapons would be to its military advantage?

The roughly 6,000 NATO nuclear weapons now deployed in Europe consist of warheads for air-defense missiles, nuclear mines (known as atomic demolition munitions), warheads for shorter-range missiles, nuclear bombs, and nuclear-armed artillery shells. The North Atlantic Assembly recently published a rough estimate of the distribution of these weapons.[14] It is shown in the table below.

U.S. NUCLEAR WARHEADS
LOCATED IN EUROPE IN 1981

Bombs to be delivered by aircraft	1069
Artillery Shells (203mm and 155mm)	2000
Missiles: Pershing IA	270
Lance and Honest John	910
Air Defense and Atomic Demolition Charges	1750
Total	5999

According to these figures, nuclear artillery shells comprise the largest portion of the stockpile, about one-third of the total. They are also the weapons which cause the greatest worry.

There are two types of nuclear artillery shells in the NATO inventory: those for 155mm howitzers and those for 203mm cannons. Both the howitzers and cannons are dual-capable: they can be used to fire shells containing conventional explosives as well as nuclear weapons. The precise ranges of these systems are classified, but most accounts put them at around ten miles. Because of the short range of nuclear artillery, the guns and their nuclear shells tend to be deployed close to the potential front lines of any conflict in Europe—there are, in effect, approximately 2,000 short-range nuclear warheads concentrated at a few sites close to the German border.

[14] North Atlantic Assembly's Special Committee on Nuclear Weapons in Europe, *Second Interim Report on Nuclear Weapons in Europe*, Report to the Committee on Foreign Relations, U.S. Senate, 98th Cong., 1st sess, Washington: GPO, 1983, p. 59.

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Atomic demolition munitions (ADMs) also raise particular concerns. These weapons are about 25 years old and probably no longer reliable. Intended to block mountain passes and other "choke points" on potential Soviet invasion routes, their effects would be felt on NATO territory. Moreover, to be effective they would have to be emplaced before a war actually began. Such an action could aggravate a crisis and would probably contribute to the likelihood of the war starting. At the same time, because ADMs would have to be used at the very onset of the conflict, their use would mean that NATO had not tested the ability of its conventional forces to contain a Warsaw Pact invasion.

Similar problems beset nuclear-armed air defense systems. They are old and probably unreliable. And they are intended for use at the onset of a conflict—to disrupt the large-scale air attacks that would accompany a Warsaw Pact invasion—thus negating the strategy of "flexible response."

In an acute crisis in which the risk of war seemed to be rising, these characteristics of nuclear artillery, mines, and air defense systems would be likely to lead to pressures on NATO's political leaders, particularly the U.S. President, to delegate the authority to release these weapons to the military commanders on the scene. Whether such authority were delegated or not, it is these characteristics—most importantly the vulnerability of NATO's nuclear artillery—which lead many observers to predict that the Alliance would use tactical nuclear weapons within hours of the start of a war in Europe. In effect, whether its military or civilian leaders retained decision authority, NATO would be likely to face the choice of either using its battlefield nuclear weapons or seeing them overrun or destroyed by the enemy.

In terms of their military utility, NATO has not found it possible to develop plans for the use of nuclear artillery which would both assure a clear advantage to the Alliance and at the same time avoid the very high risk of escalating to all-out nuclear war.

Current guidelines on the initial use of nuclear weapons date from the early 1970s.[15] A former member of the High Level Group, a special official committee established by NATO in 1978 to examine the Alliance's nuclear posture, stated recently that despite discussions lasting for years, "NATO has not yet managed to agree on guidelines for the follow-on use of nuclear weapons if a first attempt to communicate NATO's intentions through a controlled demonstra-

[15] *NATO Facts and Figures*, 10th edition, Brussels: NATO Information Service, 1981, pp. 152–54.

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tive use did not succeed in persuading the adversary to halt hostilities."[16]

Two problems stand in the way.

First, since the assumption is made that NATO will be responding to a Warsaw Pact invasion of Western Europe, and since the artillery has short range, the nuclear explosions would occur on NATO's own territory. If a substantial portion of the 2,000 nuclear artillery shells were fired, not only would the Warsaw Pact likely suffer heavy casualties among its military personnel, but large numbers of NATO's civilian and military personnel also would likely be killed and injured. There also would be considerable damage to property, farmland and urbanized areas.[17]

Moreover, there is no reason to believe that the Warsaw Pact, now possessing tactical and intermediate-range nuclear forces at least comparable to those of NATO, would not respond to NATO's initiation of nuclear war with major nuclear attacks of its own. These attacks would probably seek most importantly to reduce NATO's ability to fight a nuclear war by destroying command and control facilities, nuclear weapon storage sites, and the aircraft, missiles, and artillery which would deliver NATO's nuclear weapons. Direct support facilities like ports and airfields would likely also be attacked in the initial Warsaw Pact nuclear offensive. Thus the war would escalate from the battlefield to the rest of Western Europe (and probably to Eastern Europe as well, as NATO retaliated).

What would be the consequences of such a conflict? In 1955 an exercise called "Carte Blanche" simulated the use of 335 nuclear weapons, 80 percent of which were assumed to detonate on German territory. In terms of immediate casualties (ignoring the victims of radiation, disease, and so forth), it was estimated that between 1.5 and 1.7 million people would die and another 3.5 million would be wounded—more than five times the German civilian casualties in World War II—in the first two days. This exercise prompted Helmut Schmidt to remark that the use of tactical nuclear weapons "will not defend Europe, but destroy it."[18]

[16] *Second Interim Report on Nuclear Weapons in Europe, op. cit.*, p.7.

[17] A 100-kiloton tactical nuclear weapon would be needed to destroy approximately 50 to 100 armored fighting vehicles (e.g., tanks) in dispersed formation, the equivalent of a regiment. Such a weapon would create general destruction (of structures and people) in a circle with a diameter of 4.5 miles (an area of 15 square miles). A blast circle of this size, in typical Western European countries, would be likely to include two or three villages or towns of several thousand persons. In addition, depending on the nature of the weapon and height of burst, a much larger area could be affected by fallout. Several hundred of such tactical nuclear weapons would be required to counter an armored development in Europe. See Seymour J. Deitchman, *New Technology and Military Power*, Boulder (Colo.): Westview Press, 1979, p.12.

[18] Helmut Schmidt, *Defense or Retaliation?* New York: Praeger, 1962, p.101; Schmidt's comment and the exercise result are cited in Jeffrey Record, *U.S. Nuclear Weapons in Europe*, Washington: Brookings, 1974.

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Additional studies throughout the 1960s confirmed these results. They prompted two of my former aides in the Pentagon to write in 1971:

> Even under the most favorable assumptions, it appeared that between 2 and 20 million Europeans would be killed, with widespread damage to the economy of the affected area and a high risk of 100 million dead if the war escalated to attacks on cities.[19]

Have the more modern weapons deployed on both sides in the 1970s changed the likely results of nuclear war in Europe? Not at all! A group of experts were assembled recently by the U.N. Secretary General to study nuclear war. They simulated a conflict in which 1,500 nuclear artillery shells and 200 nuclear bombs were used by the two sides against each other's military targets. The experts concluded that as a result of such a conflict there would be a minimum of five to six million immediate civilian casualties and 400,000 military casualties, and that at least an additional 1.1 million civilians would suffer from radiation disease.[20]

It should be remembered that all these scenarios, as horrible as they would be, involve the use of only a small portion of the tactical nuclear weapons deployed in Europe, and assume further that none of the roughly 20,000 nuclear warheads in the U.S. and U.S.S.R.'s central strategic arsenals would be used. Yet portions of those central forces are intended for European contingencies: the United States has allocated 400 of its submarine-based Poseidon warheads for use by NATO; the Soviet Union, it is believed, envisions as many as several hundred of its ICBMs being used against targets in Europe.

Is it realistic to expect that a nuclear war could be limited to the detonation of tens or even hundreds of nuclear weapons, even though each side would have tens of thousands of weapons remaining available for use?

The answer is clearly no. Such an expectation requires the assumption that even though the initial strikes would have inflicted large-scale casualties and damage to both sides, one or the other—feeling disadvantaged—would give in. But under such circumstances, leaders on both sides would be under unimaginable pressure to avenge their losses and secure the interests being challenged. And each would fear that the opponent might launch a larger attack at any moment. Moreover, they would both be operating with only

[19] Alain C. Enthoven and K. Wayne Smith, *How Much is Enough?* New York: Harper & Row, 1971, p.128.

[20] *General and Complete Disarmament: A Comprehensive Study on Nuclear Weapons: Report of the Secretary General, Fall 1980*, New York: United Nations, 1981.

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partial information because of the disruption to communications caused by the chaos on the battlefield (to say nothing of possible strikes against communications facilities). Under such conditions, it is highly likely that rather than surrender, each side would launch a larger attack, hoping that this step would bring the action to a halt by causing the opponent to capitulate.[21]

It was assessments like these which led not only Field Marshall Lord Carver, but Lord Louis Mountbatten and several other of the eight retired Chiefs of the British Defence Staff as well, to indicate that under no circumstances would they have recommended that NATO initiate the use of nuclear weapons.

And it was similar considerations which led me to the same conclusions in 1961 and 1962.

It is inconceivable to me, as it has been to others who have studied the matter, that "limited" nuclear wars would remain limited—any decision to use nuclear weapons would imply a high probability of the same cataclysmic consequences as a total nuclear exchange. In sum, I know of no plan which gives reasonable assurance that nuclear weapons can be used beneficially in NATO's defense.

I do not believe the Soviet Union wishes war with the West. And certainly the West will not attack the U.S.S.R. or its allies. But dangerous frictions between the Warsaw Pact and NATO have developed in the past and are likely to do so in the future. If deterrence fails and conflict develops, the present NATO strategy carries with it a high risk that Western civilization, as we know it, will be destroyed.

If there is a case for NATO retaining its present strategy, that case must rest on the strategy's contribution to the deterrence of Soviet aggression being worth the risk of nuclear war in the event deterrence fails.

IV

The question of what deters Soviet aggression is an extremely difficult one. To answer it, we must put ourselves in the minds of several individuals who would make the decision to initiate war. We must ask what their objectives are for themselves and their nation, what they value and what they fear. We must assess their proclivity to take risks, to bluff, or to be bluffed. We must guess at how they see us—our will and our capabilities—and determine what we can do to strengthen their belief in the sincerity of our threats and our promises.

But most difficult of all, we must evaluate all these factors in the

[21] This discussion is based on a presentation by Vice Admiral John M. Lee (Ret.) in St. Petersburg, Florida, December 17, 1981.

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context of an acute international crisis. Our problem is not to persuade the Soviets not to initiate war today. It is to cause them to reach the same decision at some future time when, for whatever reason—for example, an uprising in Eastern Europe that is getting out of control, or a U.S.-Soviet clash in Iran, or conflict in the Middle East—they may be tempted to gamble and try to end what they see as a great threat to their own security.

In such a crisis, perceptions of risks and stakes may change substantially. What may look like a reckless gamble in more tranquil times might then be seen merely as a reasonable risk. This will be the case particularly if the crisis deteriorates so that war begins to appear more and more likely. In such a situation, the advantages of achieving tactical surprise by going first can appear to be more and more important.

As I have indicated, the launch of strategic nuclear weapons against the Soviet homeland would lead almost certainly to a response in kind which would inflict unacceptable damage on Europe and the United States—it would be an act of suicide. The threat of such an action, therefore, has lost all credibility as a deterrent to Soviet conventional aggression. The ultimate sanction in the flexible response strategy is thus no longer operative. One cannot build a credible deterrent on an incredible action.

Many sophisticated observers in both the United States and Europe, however, believe that the threat to use tactical nuclear weapons in response to Warsaw Pact aggression increases the perceived likelihood of such an action, despite its absolute irrationality. They believe that by maintaining battlefield weapons near the front lines, along with the requisite plans and doctrines to implement the strategy that calls for their use, NATO confronts the Warsaw Pact with a dangerous possibility which cannot be ignored.

In contemplating the prospect of war, they argue, Soviet leaders must perceive a risk that NATO would implement its doctrine and use nuclear weapons on the battlefield, thus initiating an escalatory process which could easily get out of control, leading ultimately to a devastating strategic exchange between the two homelands. It is not that NATO would coolly and deliberately calculate that a strategic exchange made sense, they explain, but rather that the dynamics of the crisis would literally force such an action—or so Soviet leaders would have to fear.

Each step of the escalation would create a new reality, altering each side's calculation of the risks and benefits of alternative courses of action. Once U.S. and Soviet military units clashed, perceptions of the likelihood of more intense conflicts would be changed radi-

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cally. Once any nuclear weapon had been used operationally, assessments of other potential nuclear attacks would be radically altered.

In short, those who assert that the nuclear first use threat serves to strengthen NATO's deterrent believe that, regardless of objective assessments of the irrationality of any such action, Soviet decision-makers must pay attention to the realities of the battlefield and the dangers of the escalatory process. And, in so doing, they maintain, the Soviets will perceive a considerable risk that conventional conflict will lead to the use of battlefield weapons, which will lead in turn to theater-wide nuclear conflict, which will inevitably spread to the homelands of the superpowers.

In fact, it was a desire to strengthen the perception of such a likely escalation that led NATO to its December 1979 decision to deploy the new intermediate-range Pershing II and the nuclear-armed cruise missiles in Europe. The key element in that decision was that the new missiles would be capable of striking Soviet territory, thus presumably precipitating a Soviet attack on U.S. territory and a U.S. retaliation against the whole of the Soviet homeland. The new weapons thus "couple" U.S. strategic forces with the forces deployed in Europe, easing concerns that the Soviets might perceive a firebreak in the escalatory process. So long as the escalation is perceived to be likely to proceed smoothly, the logic continues, then the Warsaw Pact will be deterred from taking the first step—the conventional aggression—which might start the process.

But for the same reason that led Henry Kissinger to recognize that a U.S. President is unlikely to initiate the use of U.S.-based strategic nuclear weapons against the U.S.S.R., so a President would be unlikely to launch missiles from European soil against Soviet territory.

And, as I have indicated, more and more Western political and military leaders are coming to recognize, and publicly avowing, that even the use of battlefield nuclear weapons in Europe would bring greater destruction to NATO than any conceivable contribution they might make to NATO's defense.

There is less and less likelihood, therefore, that NATO would authorize the use of any nuclear weapons except in response to a Soviet nuclear attack. As this diminishing prospect becomes more and more widely perceived—and it will—whatever deterrent value still resides in NATO's nuclear strategy will diminish still further.

There are additional factors to be considered. Whether it contributes to deterrence or not, NATO's threat of "first use" is not

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without its costs: it is a most contentious policy, leading to divisive debates both within individual nations and between the members of the Alliance; it reduces NATO's preparedness for conventional war; and, as I have indicated, it increases the risk of nuclear war.

Preparing for tactical nuclear war limits NATO's ability to defend itself conventionally in several ways. Nuclear weapons are indeed "special" munitions. They require special command, control and communications arrangements. They require special security precautions. They limit the flexibility with which units can be deployed and military plans altered. Operations on a nuclear battlefield would be very different than those in a conventional conflict; NATO planning must take these differences into account.

Moreover, since most of the systems that would deliver NATO's nuclear munitions are dual-purpose, some number of aircraft and artillery must be reserved to be available for nuclear attacks early in a battle, if that became necessary, and are thus not available for delivering conventional munitions.

Most important, though, the reliance on NATO's nuclear threats for deterrence makes it more difficult to muster the political and financial support necessary to sustain an adequate conventional military force. Both publics and governments point to the nuclear force as the "real deterrent," thus explaining their reluctance to allocate even modest sums for greater conventional capabilities.

To the extent that the nuclear threat has deterrent value, it is because it in fact increases the risk of nuclear war. The location of nuclear weapons in what would be forward parts of the battlefield; the associated development of operational plans assuming the early use of nuclear weapons; the possibility that release authority would be delegated to field commanders prior to the outset of war—these factors and many others would lead to a higher probability that if war actually began in Europe, it would soon turn into a nuclear conflagration.

Soviet predictions of such a risk, in fact, could lead them to initiate nuclear war themselves. For one thing, preparing themselves for the possibility of NATO nuclear attacks means that they must avoid massing their offensive units. This would make it more difficult to mount a successful conventional attack, raising the incentives to initiate the war with a nuclear offensive. Moreover, if the Soviets believe that NATO would indeed carry out its nuclear threat once they decided to go to war—whether as a matter of deliberate choice or because the realities of the battlefield would give the Alliance no choice—the Soviets would have virtually no incentive not to initiate nuclear war themselves.

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I repeat, this would only be the case if they had decided that war was imminent and believed there would be high risk that NATO's threats would be fulfilled. But if those two conditions were valid, the military advantages to the Warsaw Pact of preemptive nuclear strikes on NATO's nuclear storage sites, delivery systems, and support facilities could be compelling.

The costs of whatever deterrent value remains in NATO's nuclear strategy are, therefore, substantial. Could not equivalent deterrence be achieved at lesser "cost"? I believe the answer is yes. Compared to the huge risks which the Alliance now runs by relying on increasingly less credible nuclear threats, recent studies have pointed to ways by which the conventional forces may be strengthened at modest cost.

V

Writing in these pages only 15 months ago, General Bernard Rogers, the present Supreme Allied Commander in Europe, stated that major improvements in NATO's conventional forces were feasible at a modest price.[22] These improvements, he said, would permit a shift from the present strategy requiring the early use of nuclear weapons to a strategy of "no early use of nuclear weapons." General Rogers estimated the cost to be approximately one percent per year greater than the three percent annual increase (in real terms) which the members of NATO, meeting in Washington, had agreed to in 1978.

An experienced Pentagon consultant, MIT Professor William W. Kaufmann, has taken General Rogers' suggestions of four percent annual increases in NATO defense budgets and analyzed how those funds could best be allocated to improve the Alliance's conventional defenses. After an exhaustive analysis, he concluded that a conventional force could be acquired which would be sufficiently strong to give a high probability of deterring Soviet aggression without threatening the use of nuclear weapons.[23]

Recently, an international study group also analyzed the possibilities for moving away from NATO's present nuclear reliance.[24] The steering committee of this "European Security Study" included among its members General Andrew Goodpaster, who once served as the Supreme Allied Commander in Europe; General Franz-Josef Schulze, a German officer, formerly Commander in Chief

[22] General Bernard W. Rogers, "The Atlantic Alliance: Prescriptions for a Difficult Decade," *Foreign Affairs*, Summer 1982, pp.1145–56.

[23] Unpublished writings of Professor Kaufmann.

[24] *Strengthening Conventional Deterrence in Europe*, Report of the European Security Study, New York: St. Martin's Press, 1983.

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of Allied Forces in Central Europe; and Air Marshall Sir Alasdair Steedman, formerly the United Kingdom's military representative to NATO.

Their report concludes that NATO's conventional forces could be strengthened substantially at very modest cost—a total of approximately $20 billion which would be spent over a period of five or six years. For comparative purposes, note that the MX missile program is expected to cost $18 billion over the next five years.

The European Security Study stated that to constitute an effective deterrent, NATO's conventional forces did not have to match specific Soviet capabilities. Rather, these forces need only be strong enough to create serious concerns for Warsaw Pact planners whether or not their attack could succeed.

To accomplish this, the study concluded, NATO's conventional forces would have to be able to:

—stop the initial Warsaw Pact attack;
—erode the enemy's air power;
—interdict the follow-on and reinforcing armored formations which the Pact would attempt to bring up to the front-lines;
—disrupt the Pact's command, control, and communications network; and
—ensure its own secure, reliable, and effective communications.

The report outlines in detail how NATO could achieve these five objectives utilizing newly available technologies, and accomplishing with conventional weapons what previously had required nuclear munitions. These technological advances would permit the very accurate delivery of large numbers of conventional weapons, along with dramatic improvements in the ability to handle massive quantities of military information.

The effectiveness of the new technologies was testified to most recently by Senator Sam Nunn, a leading congressional expert on European defense issues:

> We now have at hand new conventional technologies capable of destroying the momentum of a Soviet invasion by means of isolating the first echelon of attacking forces from reinforcing follow-on echelons. These technologies . . . capitalize on three major advances. The first is the substantially improved lethality of improved conventional munitions . . . . The second is the . . . growing capability of microelectronics to enhance the rapid collection, processing, distribution, and ability to act upon information about the size, character, location, and movement of enemy units . . . . The third is improved ability to move and target quickly large quantities of improved conventional firepower against enemy force concentrations.[25]

[25] *Congressional Record*, 98th Cong., Ist sess., July 13, 1983, Washington: GPO, 1983, p. S 9853.

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The potential of these new conventional technologies is great. Unfortunately, they have not yet been accepted by any NATO nation for incorporation in its force structure and defense budget.

Moving from the present situation to revised strategic doctrines, war plans, and force structures to implement a conventional deterrent strategy could not be accomplished overnight. Still, over time, NATO's basic strategy could be modified within realistic political and financial constraints.

The process should probably begin with a statement by the Alliance, at a summit meeting of its heads of government, of its intention to move to a policy of deterrence of Soviet conventional-force aggression solely through the use of non-nuclear forces.

This statement of intention could then be followed by the drafting of detailed plans and programs. Conventional defense improvements would be set in motion; new doctrines debated and approved; parliaments tested as to their willingness to support the modestly larger expenditures necessary for strengthening the conventional forces.

In the meantime, immediate steps could be taken to reduce the risk of nuclear war. For example:

—Weapons modernization programs designed to support a strategy of early use of nuclear weapons—such as those to produce and deploy new generations of nuclear artillery shells—could be halted.

—The Alliance's tactical nuclear posture could be thoroughly overhauled, with an eye toward shifting to a posture intended solely to deter the first use of nuclear weapons by the Warsaw Pact. Such a shift would permit major reductions in the number of nuclear weapons now deployed with NATO's forces in Europe; no more, and probably less, than 3,000 weapons would be sufficient. Those weapons which raise the most serious problems of release authority and pressures for early use—atomic demolition munitions and nuclear air defense systems—could be withdrawn immediately. Nuclear artillery could be withdrawn as the program to improve the conventional posture was implemented.

—The creation of a zone on both sides of the border in Europe, beginning in the Central Region, within which no nuclear munitions could be deployed, could be proposed to the Soviets.[26] The agreement to create such a zone could be verified by on-site inspections on a challenge basis. The Soviet Union has stated officially that it supports a nuclear-free zone, although it pro-

[26] Such a proposal was made in the Report of the International Commission on Disarmament and Security Issues, *Common Security: A Program for Disarmament*, London: Pan Books, 1982.

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posed that the width of the zone be far greater than is likely to be acceptable to NATO. If agreement could be reached on the size of the zone and adequate methods established to verify compliance with the agreement, such an agreement could build confidence on both sides that pressures for early use of nuclear weapons could be controlled. The January 1984 international conference in Stockholm on confidence-building measures in Europe would be a logical forum in which to discuss such an idea.

VI

I now want to conclude this article by stating unequivocally my own views on the military role of nuclear weapons.

Having spent seven years as Secretary of Defense dealing with the problems unleashed by the initial nuclear chain reaction 40 years ago, I do not believe we can avoid serious and unacceptable risk of nuclear war until we recognize—and until we base all our military plans, defense budgets, weapon deployments, and arms negotiations on the recognition—that *nuclear weapons serve no military purpose whatsoever. They are totally useless—except only to deter one's opponent from using them.*

This is my view today. It was my view in the early 1960s.

At that time, in long private conversations with successive Presidents—Kennedy and Johnson—I recommended, without qualification, that they never initiate, under any circumstances, the use of nuclear weapons. I believe they accepted my recommendation.

I am not suggesting that all U.S. Presidents would behave as I believe Presidents Kennedy and Johnson would have, although I hope they would. But I do wish to suggest that if we are to reach a consensus within the Alliance on the military role of nuclear weapons—an issue that is fundamental to the peace and security of both the West and the East—we must face squarely and answer the following questions.

—Can we conceive of ways to utilize nuclear weapons, in response to Soviet aggression with conventional forces, which would be beneficial to NATO?

—Would any U.S. President be likely to authorize such use of nuclear weapons?

—If we cannot conceive of a beneficial use of nuclear weapons, and if we believe it unlikely that a U.S. President would authorize their use in such a situation, should we continue to accept the risks associated with basing NATO's strategy, war plans and nuclear warhead deployment on the assumption that the weapons

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would be used in the early hours of an East-West conflict?

—Would the types of conventional forces recommended by General Rogers, Professor William Kaufmann and the European Security Study, serve as an adequate deterrent to non-nuclear aggression by the U.S.S.R.? If so, are we not acting irresponsibly by continuing to accept the increased risks of nuclear war associated with present NATO strategy in place of the modest expenditures necessary to acquire and sustain such forces?

—Do we favor a world free of nuclear weapons? If so, should we not recognize that such a world would not provide a "nuclear deterrent" to Soviet conventional aggression? If we could live without such a deterrent then, why can't we do so now—thereby moving a step toward a non-nuclear world?

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William Diebold, Jr.

THE UNITED STATES IN THE WORLD ECONOMY: A FIFTY YEAR PERSPECTIVE

The 1930s deserve their bad reputation. Unemployment, misery, for many people hunger and, for more, the lack of hope, went with all the other ills of the Great Depression. Then Hitler came to power and fascism around the world grew stronger. The invasions of China by Japan and Ethiopia by Italy, and the Franco rebellion in Spain that soon came to be seen as a kind of global civil war—all showed the way the world was going. Driven by economic pressures, the policies of democratic countries became more narrowly nationalistic; bilateral and preferential trade agreements increased and France, Britain and Holland did what they could to assert privileged positions in their colonies. Although the Soviet Union was hardly a worker's paradise, the very fact that it offered an alternative to collapsed capitalism stirred people's interest and the Kremlin had new cards to play with. The worried democracies, meanwhile, did little to check the rising strength of fascism and were led to make one concession after another. If the times had any redeeming feature, it was that they made people think.

In these unattractive surroundings, I graduated from high school in June 1933 and immediately offered my suggestions for improving matters. My graduation essay called for "comprehensive planning" as a remedy for "the failure of our outworn economic system." Sporting a fairly full-blown metaphor about children crossing a meadow who repeatedly fell into ditches because they did not heed the warnings of those who looked ahead, this paper said it was especially important for the government to keep businessmen from producing surpluses but, at the same time, to provide for "any and all emergencies." It argued that comprehensive planning was also called for in international relations and that this would have to be based on the people of each country having an understanding "as to the needs and desires of the rest of the world." Governmental

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alliances would not be enough because, as the Kaiser had shown, treaties could become "scraps of paper."

I have continued to be concerned with the place of the United States in the world economy and that is the principal topic of this retrospective reflection.

The subject is one that deeply divided Americans in the 1930s. Unprecedented prosperity had given way to deep depression, and many people believed that American capitalism was coming to an end. The debates about what to do were as bitter as the economic and political struggles for shares in what there was to be divided. While some harsh words were said about foreign debtors, competitors and imperialists, most Americans concentrated on what was wrong at home. That was nothing new. When in 1880 Winfield Scott Hancock said, "The tariff is a local issue," he was trying to fudge on his party's platform, but he caught the spirit of a country in which for a long time the domestic always won out over the foreign in economic policy.

The Hawley-Smoot Tariff of 1931 was only an extreme version of a trade policy that did not square with heavy American lending and investment abroad. It was more characteristic of the early New Deal to turn its back on the 1933 London Economic Conference than to put through the Trade Agreements Act, which gave the President the power to negotiate tariff reductions.

That measure—which makes 1934 a turning point in the history of American trade policy—owes its existence as much as anything to Franklin Roosevelt's wish to do something for conservative Democrats, one of whom was his own Secretary of State Cordell Hull, and to that Secretary's devotion to the lowering of tariffs, which he thought was also the road to peace. Henry Wallace, the Secretary of Agriculture, supported Hull because he saw tariff bargaining as the way to promote farm exports. Nevertheless, the trade agreements program endured and became the basis for the postwar multilateral arrangements for trade liberalization centering on the General Agreement on Tariffs and Trade (GATT) that have done so much to change the trading system of the world.

All that, however, lay in the future. In the 1930s one reason so many Americans were not greatly concerned with the economic problems of the rest of the world was that they did not think of their country as having any substantial power to affect what was done abroad. It followed that most Americans should look for ways of keeping the country out of war. When, in February 1937, the Council on Foreign Relations held a conference for university men, the participants were expected to support one of three positions: a

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modernized version of traditional neutrality; measures that would nearly isolate the United States from foreign conflicts; or joining in collective security measures to keep war from breaking out. However, my classmate from Swarthmore and I arrived at a fourth view. We thought that none of the proposed measures would either prevent war or keep the United States out of it. Therefore, the important thing to do was to figure out how to use those unavoidable developments to bring about the "decisive social changes" that we believed were essential and without which there could be no "effective collective action" in the future.

Just what that meant is none too clear at this distance. It certainly had to do with ending fascism, reforming capitalism, and providing a stronger means of international cooperation than the League of Nations. It was not an unreasonable view if you felt that sooner or later the Nazis would start a world war unless the democracies surrendered piecemeal.

II

Then war changed the way most Americans thought, how they acted collectively, and their ability to influence the rest of the world. It took several painful, costly years to make those changes, but thinking and planning started right away. Hardly had the Nazis invaded Poland when the Council on Foreign Relations, with the support of the Rockefeller Foundation, began to study problems that would arise at the end of the war (and what, if anything, could be done to deal with them currently). Later, the State Department and other parts of the government embarked on their own efforts. Private groups from all over the country joined in, some concentrating on specific issues, some grinding axes, others trying to see the big picture. Foreigners in the United States took part, and official and unofficial Americans went abroad to discuss ideas with friends and allies.

It was predictable that everyone should want to make the postwar world different from that of the 1920s and 1930s. It was not predictable that good ways could be found to do so and even less whether the United States—President, Congress, people—would accept such ideas, act on them, and stick with them. As Jacob Viner wrote in *Foreign Affairs* in July 1947, "The old schoolmen distinguished between the grace which inspires good resolutions and that other grace which provides the will to fulfill them. There is great danger that the American supply of the latter will fall far short of the State Department's supply of the former."

But it did not—at least not right away. Imperfectly, but to a

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remarkable degree, the American response met the immediate need. There was one more unpredictable element, the rest of the world. Without the cooperation of other governments, good ideas and a new resolve in the United States would not get very far.

Because the immediate postwar period is now seen as a time of American hegemony, there is a tendency for people to think the United States always got its way. Careful scholars know matters are more complicated than that. But when labels become commonplace, they often mislead, and that has happened to many people in this case. There is no doubt that the United States was the greatest power in the world. That did not mean it could impose a new economic system on the postwar world. There were at least four reasons for this.

First, for a long time Americans did not realize how strong they were. Plans for the postwar economy assumed that London would continue to be a primary financial center, the pound a key currency, and Britain a leading element in a multilateral trading system. Continental Europe was expected to return to a central position in the world economy—provided Germany could be kept from becoming a menace once again. Much of Asia and Africa was still ruled from European capitals. By the time Americans came to realize their own strength, the foundations of the postwar world had been laid and Washington wisely did not change course.

The second reason the United States could not always get its way was that not all American power could be used to shape the world economy. The planes may have stretched from one horizon to the other over Tokyo Bay when the Japanese surrendered on the *Missouri*, but that did nothing to rebuild factories or produce a set of rules for world trade.

Third—and most fundamental—the kind of international economic system the United States was advocating was based on cooperation among sovereign states; no country would engage in lasting cooperation unless its interests were served. Therefore, if the United States used its dominance to set up arrangements that served only American interests, they would be undone once other countries got strong enough—and if they did not get strong enough, American policy would have failed. That was clear to practical politicians as well as to postwar planners.

Finally, the Americans most concerned about the postwar world economy knew that a crucial problem was to restrain the United States. No one, in the 1940s, could feel sure that postwar American governments would be sufficiently different from their prewar counterparts to sustain the new lines of policy. An American com-

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mitment to international agreements known to be balanced bargains could be a potent argument for continuity and consistency.

Any careful study of the record will show that difficult and often unsatisfactory negotiation was the modality by which the postwar system was produced, not U.S. dictation. Of course, there was a bias. The Americans did the lion's share of the drafting (and most of the rest was British). Some things could not be done because Congress would not accept them; others had to be done because Congress insisted. American negotiators were known to invoke Congress as a bargaining weapon. When American performance fell short of what would have been desirable, other countries could only rarely force a change. Foreign governments had many irons in the fire and wanted to go along with American wishes as much as they conveniently could. The realistic recognition that countries with difficult balance-of-payments problems or large reconstruction needs had to be treated differently from the United States—whose economy had expanded during the war—meant that most foreign governments did not have to be in an uncomfortable hurry to live up to the principles they had agreed to.

This was not the only time that the United States accepted commonality in form that was not always matched in fact. Perhaps Americans simply recognized what the situation made reasonable, if not inevitable. To have been too stubborn or pushed too hard for full reciprocity and equality would have risked ruining the long-run prospects. Perhaps being a hegemon helped. By the 1960s and 1970s, when Americans began to find it annoying that other countries were not assuming more responsibility for international security and economic cooperation, Washington's power had declined.

Long before that point was reached, however, the new international economic order had been tested in a number of ways.

III

The testing started early, with unexpected events. For all the wartime planning, the United States was not adequately prepared for the part it was to play in European reconstruction. Nevertheless, through a number of channels, some ten billion dollars in aid was provided to Europe before the launching of the Marshall Plan. That famous effort was remarkable not only as an innovation in American policy but for the efforts, cooperative and national, it drew forth in Europe. Before the Marshall Plan was over, NATO was negotiated, rearmament began, the Korean War broke out and the United States was providing military aid in both Europe and Asia. Occupation policy in Germany was reversed and Japan was

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soon given its autonomy in economic policy—two major steps that further changed the world economy.

Not surprisingly, in these circumstances the dollar came to have a different place from that assumed at Bretton Woods. Most countries used exchange controls and, for some years, the International Monetary Fund could not play the central part it was supposed to have in liberalizing and stabilizing international payments. The International Bank for Reconstruction and Development moved slowly, was second to the United States in providing loans and could not do much in the short run to provide the underpinnings—material and psychological—for flourishing private investment. Trade liberalization, however, was not postponed, for two good reasons. The reduction of American tariffs while other countries continued to limit imports made an immediate contribution to righting imbalances. Had nothing been done until every country was ready to act, investment patterns would have been established that would have made later liberalization more difficult. Assistant Secretary of State Will Clayton, I was told, said it was important to act before the vested interests got their vests on.

It was not until the late 1950s that the world economy came close to matching the picture on which the new international system was based. But the contributions of improvisation and reasonably consistent adherence to the original ideas paid off. Great material progress which lasted into the 1970s seemed both to justify the new approach and to strengthen the ability of governments to cooperate.

The interplay of cause and effect is a matter for study and debate. The removal of trade barriers must have had something to do with the fact that international trade increased faster than production. But the great growth of international investment was also important and there was no general agreement covering that. Thus, the fact that the postwar depression that was widely expected did not materialize is not easily traceable to the commitments to international economic cooperation. Would cooperation have survived a serious contraction in the world economy? One way or another, the coexistence of the new order of international economic cooperation and a period of unprecedented growth and prosperity in most of the world augured well for both.

Remarkable economic changes took place in this period. Products never known before became commonplace; familiar products were produced by new processes. New firms and whole new industries appeared. All this changed the conditions of competition and helped some people while hurting others. Technological change was a big issue; there was a dispute about automation and the destruction of

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jobs in the 1950s and 1960s that foreshadowed today's concern about robotization and high technology. The technological revolution in agriculture—involving enormous investments made possible by public policy—began in the United States and spread to other countries. It played a constructive part in meeting the greatly increased world demand for food that resulted from the increase in population and income. But some of its other effects on international cooperation were damaging.

Naturally enough, recovery in Western Europe and Japan gave those areas greater economic weight in the world. As time passed, that was to have an effect on American policy. There were, however, other changes in the political and economic organization of the world that had a bearing on whether the international economic system set up at the end of the Second World War would work or not. That system, it should be recalled, was based on multilateral cooperation among governments that were responsible for their own national economies. With regard to international behavior, they made firm commitments on some matters and looser agreements for objectives on others. Each country was autonomous as to the character of its domestic economy (socialist, capitalist or whatever) and its performance (efficiency vs. stability, work vs. leisure, etc.), so long as it lived up to its international commitments. Reciprocity and equal treatment were basic elements in principle but imperfectly achieved in practice. Taken together, the numerous international agreements and the way governments behaved under them made up what can properly be called a new international economic system.

In principle this system was global. Most countries belonged to the United Nations, whose Economic and Social Council was expected to be more effective in guiding the world economy than it has proved to be. The major agreements on trade and finance involved only those countries willing to undertake certain obligations. In practice it was the continuing participation of several of the economically most important countries that was crucial to the system. Even among them, not everything could be reduced to rigid formulas, and occasional departures from the rules proved compatible with continuing cooperation. In practice the system has been very resilient. Nevertheless, its adaptation to some big changes in how the world is organized has left some unresolved problems.

Although the Russians were at the Bretton Woods conference, it was never clear whether they really wanted to take part in the building of a new international economic order—or how serious it would be if they did not. The cold war put that issue aside for the

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time being but raised new questions about the long-run economic relations of the First and Second Worlds, especially after the latter was enlarged to include Eastern Europe, China and several other countries. It proved not to be a serious disadvantage for the development of the new international economic order that the U.S.S.R. and its allies were outside and had to be dealt with by special arrangements. The biggest economic effect of the emergence of the U.S.S.R. as a superpower has come through the burdens of arms expenditures and the way strategic considerations have shaped policy on both sides, particularly for the United States. The impact of the Soviet economic system has been enormous on those who live under it but secondary for the rest of the world. East-West tensions strengthened the West's will to cooperate at certain times, but are now serious sources of divisiveness.

Far more important to the operation of the system than the omission of the Soviet bloc was the partial integration of Western Europe, something not seriously contemplated in wartime thinking about the postwar world (except by a handful of people). Though a nod was given to the possibility of customs unions and monetary groupings, the arrangements for multilateral cooperation among nation-states were not well equipped to deal with the appearance of major agglomerations. Once the path toward European integration was opened—starting with the cooperative arrangements that were part of the European end of the Marshall Plan and then, much more dramatically, with the creation of the European Coal and Steel Community in 1952—people came to expect much greater results than ever appeared. For a limited number of purposes, the European Community became a unit vis-à-vis the rest of the world; in other matters, its member-states continued to act separately; and sometimes they were in between, with preferential arrangements among themselves that were not always well regarded by the rest of the world. Without doubt, the strengthening of the European economy and the removal of historic barriers within Western Europe were major achievements of the postwar period. But the future remains unclear as to how this massive change will ultimately affect the international system, and also as to how cohesive the European Community will prove to be.

In the United States and Canada—and much less in Europe—Japan was not given much thought when plans were laid for the postwar international economic system. But by the time the peace treaty was negotiated, its economic counterpart was clear: a place would have to be found in the world economy to permit a resource-poor country with a talented, energetic people to live on economic-

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ally satisfactory terms. Then came the unexpectedly rapid development of Japan into a major modern industrial power; it caught up to and often outdistanced North America and Western Europe as the premier producer of a number of key manufactures.

The liberal multilateral economic arrangements gave Japan great opportunities and the system's ability to accomodate this unexpected growth may be one of its major achievements. But neither Japan nor the other countries have done all they should. Perhaps time will permit the working out of arrangements for a fuller application of the system's rules and principles by all countries. There is, however, also a question whether Japan's economic success suggests that national and international policy principles based on the Atlantic industrial experience may be inadequate for the modern world.

No one seriously doubted that the changes in Europe and Japan, and the American reactions to them, had to be coped with if the system of international economic cooperation was to continue. But the dominant attitude toward the participation of the developing countries in the system has been that it was a secondary problem that could be temporized with. This is no longer true and was unwise from the first.

When the postwar planners thought about economic development, they looked mostly toward China but sometimes toward Latin America and Eastern Europe. They expected India to become independent but could not imagine that so many other countries would follow so quickly. Independence reversed the priorities of colonial times: growth took first place ahead of balancing the accounts. I remember an English economist who said, "I always told them there would be trouble with the balance of payments when the Indians began eating as they would like." That is not exactly what happened, but the new governments, democratic and not-so-democratic, were expected to produce results that it had taken decades—perhaps centuries—to achieve elsewhere. It was not independence alone that changed things—most Latin American countries had, after all, been governing themselves for over a century. People had new visions of what was possible; governments were judged by the standards of the mid-twentieth century welfare state, not the more rugged nineteenth century attitudes that had accompanied growth in Europe and North America. Maybe some of the most dangerous false expectations were those of economists who thought they had mastered development policy, endorsing first one formula and then another, counting too heavily on foreign aid, and using generalizations where particularization was needed.

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Yet there was much success. Growth in the developing world as a whole has been high; hundreds of millions of people are better off in health, life expectancy and standards of living than their parents; most countries can earn their way in the world at much higher levels of production and consumption than ever before. The idea of new Japans entering the world scene may cause some trepidation, but surely the appearance of the NICs—the newly industrializing countries—is a mark of progress. The NICs also make another basic point. Not only are they quite different from most other developing countries but they vary greatly from one another—compare South Korea and Brazil. Differentiation is a better approach to the problems of the developing countries than treating the Third World as a whole. OPEC—the oil-producers' cartel—showed that, too.

There is, however, more evidence coming—China. How is it to be regarded? As the biggest developing country, but with a late start? As a late-starting communist country that is also less developed? As a near-NIC on the coast but with a huge hinterland? As falling into the category of countries whose absolute size makes their economy different from others, including India, the U.S.S.R., Australia, Brazil, Canada and maybe the United States? Or simply as a country different from all others, as almost any Chinese would say?

Unfortunately, the way the new international economic system dealt with these sweeping developments was all too often by giving the developing countries a special status exempt from most obligations and entitled to some kind of specially favorable treatment. For reasons that cannot be set out in detail here, this formula has not been very helpful to either set of countries. External pressure improves the performance of rich, industrialized countries; are poor countries likely to do better when fewer demands are made on them? Can the rich countries be expected to expose one domestic industry after another to competition if their access to the markets of developing countries does not improve in return?

Whenever lines are drawn on a generalized North-South basis, difficulties multiply and often lead to an impasse. To the extent that differentiation is acceptable, new possibilities arise, provided the stronger countries do not try too hard to take advantage of their positions. What is called for, I think, is not simply some improved method of bringing the developing countries into fuller participation in the international economic system that has been shaped by the older industrial countries, but a reshaping of that system itself.

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Unfortunately, reshaping the international economic system to permit it to work better in a greatly changed world has not been regarded by the powers that be as a vital need—and when efforts have been made in the last decade and a half, they have not produced great success. It seems quite clear that the world is no longer as creative or farsighted in dealing with new challenges as it was in the 1940s, 1950s, and early 1960s.

This is not just nostalgia. Consider the record. By the late 1960s there was no serious doubt that the international monetary system needed reform. It proved hard to achieve. The unilateral American decision to stop exchanging dollars for gold in 1971 forced the issue and set everyone on a new course—but it hardly passes for cooperation. When a new system of floating rates was worked out, governments proved unwilling to let them swing beyond certain points and unable to agree what those points should be. The energy crisis of the 1970s ought to have seen a drawing together of the main consumer countries. But mostly their responses were divisive, and have continued that way as each country has tried to attain more security in its oil supplies. Who can be confident that the easier situation of oil supply and prices (resulting to an important degree from the depression of the early 1980s) will set these issues aside forever? In trade, the Tokyo Round took longer than the Kennedy Round and left important gaps in its achievements. At the end of a near fiasco last November, the GATT ministerial meeting called for a strengthening of the trading system, an eloquent plea from the very people who were undermining it. The record on the coordination of national economic policies is very unsatisfactory even though the effort was moved from what is usually called the working level up to the summit.

Many people see this deterioration of cooperation as primarily a product of the 1970s. Certainly that was a time of troubles. Some were new, notably the oil shocks and the souring of U.S.-Soviet relations before the most serious effort to improve them had a reasonable trial. But other developments—new heights of inflation and new lows in productivity growth, and the spread of macroeconomic failure to most major countries—were at least in part an extension of past troubles. That was also true of the difficulties with the international monetary system and with the American economy. It seems to me preferable to stress the links between the 1970s and the earlier decades than to look for what it is now fashionable to call a discontinuity.

The depression of the early 1980s is another villain in the piece. It increased all economic difficulties and pushed governments even

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further to let domestic pressures take priority over international considerations. Recovery will ease matters, but will not restore the status quo ante—much less create a more satisfactory state of affairs.

The unique troublesome features of the 1970s and the early 1980s should not be stressed to the point of making the period from the late 1940s to the early 1960s sound like a golden age of international cooperation and economic growth. Growth there was, but it was not uniform, not guaranteed, and not as smooth as it looks in hindsight. Cooperation was more the result of tough bargaining than of a harmonious atmosphere and widespread altruism. Exaggeration suppresses the failures and difficulties: much was not done that should have been done and even the second best was often unattainable. The real reason for looking back is to discern the main sources of deterioration; only then can one see what the chances are of doing better in the future.

IV

Some of the reasons for the deterioration of cooperation are to be found within the system itself. Never in world history has there been so much reliance on multilateral agreements and international organization. Although the major institutions have shown themselves to be flexible and durable, time has reduced the resilience of some.

From the very beginning there have been gaps and weaknesses. The U.N. Economic and Social Council never did the coordinating and guiding that was once expected of it. Although a few U.N. agencies have dealt effectively with economic problems, the general record is not encouraging. Part of the explanation lies in the large number of countries involved in most efforts, the emphasis on national sovereignty, the frequency with which issues fall into a North-South or East-West pattern, and the unwillingness of the economically stronger countries to let themselves be outvoted on matters of substance by a majority of poorer, weaker nations. The creation in 1964 of the United Nations Conference on Trade and Development (UNCTAD) as a place where the richer and more industrialized countries have had to respond to the wishes of the developing countries has had its uses, although the material results have been fairly modest.

The industrial countries have also not been willing to push ahead with the process of cooperation and building institutions. An International Trade Organization (ITO), repeatedly said to be essential to the success of the International Monetary Fund and the World Bank, was both proposed and abandoned by the United States at a

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very early stage. The breaking point was an investment code unwisely asked for and then opposed by American business. (That was neither the first nor the last time that organized American business did not distinguish itself by its foresightedness.) Massive investments have done much to change the world economy, but there are still no broad multilateral agreements about them. There have also been no adequate replacements for other chapters in the ITO Charter, on commodity agreements, restrictive business practices and the relation of national economic problems to trade. We have the General Agreement on Tariffs and Trade—but significant parts of world trade escape it, and its provisions and organization are inadequate to deal with disputes stemming from the clash of national industrial policies and structural changes in the world economy. The Articles of Agreement of the IMF were drafted on the assumption that capital movements would be controlled by national action, but this does not much happen any more. So far as I know, no one ever tried to work out the kinds of agreements Eugene Staley, an American economist, proposed in 1944 (in a report to the International Labor Organization) for matching the rise of industries in developing countries with the changing structure of production in the older economic centers. It should not have required a debt crisis to make people realize that the connections between trade and finance were not being well handled by the international agencies—or anyone else.

A second major source of the deterioration of cooperation lies in the problems of managing national economies. It was hardly a new thought in 1945 that governments were responsible for their economies, but the idea took on a new meaning once it was believed that governments not only should but *could* prevent depressions, guarantee something like full employment, and keep the unemployed, the old, the weak, and even just the feckless from the depths of poverty and its ills. This new social contract brought benefits that were not only humanitarian but economic. It is not always easy to tell them apart, as human capital is every country's major resource, and people sense that there are links between economic security and political cohesion. At the same time it is clear that welfare and security for individuals can have social costs if they reduce the flexibility of economies, put budgets out of control, blunt incentives and initiative, and foster too much consumption at the expense of investment. There are complex interrelations among entitlements, the veto power of certain groups, the political process, and both macroeconomic and structural policies.

A period of considerable success in economic management in

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most industrial countries has been followed by doubts about the ability of governments to govern. The backlash against government programs has underestimated their durability—perhaps because there are so many beneficiaries. Imperative as it may be to reduce the burden of some social costs, governments cannot escape responsibility for what happens to the poor, the old and the unemployed. Health as an objective of public policy is growing, not diminishing, in the importance most people attach to it. Deregulation is often highly beneficial—perhaps especially when it is opposed by those who are regulated—but there is no evidence that laissez faire is around the corner. People support most measures to improve the environment. What is increasingly being sought is clarification of objectives, costs and how to get results efficiently. Who should choose the necessary tradeoffs is a fundamental political problem.

All this makes it very hard to balance the demands of a democracy's public—which is often many publics—with a responsible overall management of the economy through traditional macroeconomic policies dealing with fiscal and monetary matters—and now with the simultaneous pursuit of a number of specific economic objectives with regard to productivity, trade, industrial structure, regional balance and other matters. Unemployment and inflation make everything more difficult and create specific pressures of their own. Naturally, these domestic pressures are the ones that every government feels the most acutely. Legislators and executives do what they think has to be done and hope that the international effects will take care of themselves or can be lived with. And if some of the burdens and costs of dealing with a domestic problem can be dumped on other countries, so much the better—if one can get away with it.

Increasingly, though, one cannot. Very few countries can cope with their so-called domestic economic problems without taking account of the international economy. They cannot safely assume that other countries will absorb whatever dislocation comes their way without reacting. Ironically, past success in cooperation has contributed to the present deterioration and that deterioration seems likely to continue. Barriers to trade and investment have come down, money moves freely around the world, the ability to insulate is limited and, regardless of a government's intentions, the effects of its actions may be felt abroad. Consequently, the gaps in the system of economic cooperation are more serious than they used to be.

At the same time, the troubles every country has with its domestic economy are harder to deal with because all economies are so

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exposed to one another. This is the paradox of interdependence. It is so well recognized, and so much written about these days, that there is no need to expand on the subject. It is necessary, though, to underline the basic challenge that interdependence poses. It was put clearly and forcefully by Ramsay Muir, a British Liberal, in *The Interdependent World and its Problems*, published in 1933:

> We have entered a new era, the era of world-interdependence; and this interdependent world is threatened with chaos because it has not learnt how to adjust its institutions and its traditions of government to the new conditions.

The situation has been familiar for many years: national politics and international economics. There are parallels in security. We are not about to see the end of the nation-state, so the tension will continue. There could be some pulling back from interdependence: some lines can be cut, some flows dammed, in the interests of gaining a freer hand to shape the national economy and meet domestic pressures. But for most countries, the area of maneuver is very limited; reducing interdependence is likely to mean reducing resources; the cost of extensive disturbances of established patterns of production, consumption and trade is likely to seem rather high. Some of these prices may have to be paid, if only because other countries will not cooperate to reduce them. Before asking what it might be reasonable to look for in new cooperative measures, it is worth asking whether there may not be other forces at play, pushing the world economy toward greater internationalization and further limiting the ability of governments to manage domestic affairs on a purely national basis.

Business is one possibility. Its internationalization is a complex process that has been gaining ground throughout the postwar period. This is not just a matter of the spread of multinational enterprises. The late Judd Polk argued long ago that we should focus on the characteristics of international production and its financing rather than on organizational forms. In many different ways, and through various kinds of financial links, the internationalization of business changes (and may conceal) who controls what and whose assets have to cover what obligations. It alters the meaning of national policies and the reach of national measures. Private business has to negotiate with governments but also has a certain freedom of action. Is it possible that, as entrepreneurs pursue their interests in flexible and ingenious ways, they will bring about a creative adaptation of the world economy to the new interdependence? It is, but that cannot be the whole answer. There has to be some means of asserting the public interest, and neither

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theory nor practice says that the invisible hand of the market will do so.

Moreover, there are many public interests and they have to be blended, compromised and offset. Present (and past) practice calls for all these interests to be balanced, fused or organized in the process of arriving at something called the national interest. This is not a very sensible procedure and becomes increasingly less so as economies are internationalized and their boundaries blurred. (Does anyone doubt that what happens to American companies abroad affects American as well as foreign interests? In what sense are foreign-owned companies in the United States "American"?) Quite often, businessmen try to avoid bringing their "own" governments into disputes with other governments for fear that their own interests will be lost in the pursuit of other national aims. Surely we ought to make better use of the fact that most international economic issues involve clashes of interests within each country. Why have better ways not been invented to let private people make their cases to international bodies and foreign governments? Is it simply cultural lag? Or is it the inevitable consequence of the fact that the "consent of the governed" is asked and given entirely on a national level?

Along with business, technology has been a major force creating interdependence. The 50 years covered in this essay may have set a record in shrinking the globe. Perhaps the most dramatic economic effect has come from the almost instantaneous movement of money around the world. This technological marvel may not be all to the good. Years ago when my brother wrote one of the earliest papers on electronic banking, my wife said, "but I don't want the money taken out of my bank account as soon as I hand over my charge card." Governments may feel the same way, as they try to control their money supply.

What can you do, though, in the face of technological change? "Speed up the reaction time" is a common answer. But people are increasingly uncomfortable with the idea that they will be pushed around by machines or some disembodied force called Technology. What is the cost of resistance—to become Luddites, or laggards in a technological race all countries are forced to run? So far as one can see, most governments have opted for speeding up the race, but often get poor results. Can the race be run to the advantage of all—perhaps by increased internationalization of the effort, through private and public channels? Or do we ineluctably make it a zero-sum game if we all want the same thing—the lead?

As in the case of interdependence, we are back at a basic choice

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that wise men recognized long ago. In 1939, Eugene Staley wrote, in *World Economy in Transition*:

> Fundamental technological changes are pushing mankind in the direction of world-wide economic integration and interdependence, but . . . political tendencies . . . have strongly resisted that trend . . . . It would be unfortunate if inability to solve the political problems connected with a world-wide economy should snatch away the productive advantages . . . offered by our technicians.

Many people, then and since, have accepted this proposition—but how much international action has been based on it?

V

With the international economic system in a troubled state, the United States faces hard choices. In the 1930s it tried to stand aside. In the 1940s it took the lead, and by the 1950s it had, for the first time in history, played a key part in leading the world into highly developed arrangements for international cooperation. In the 1980s, it is again in a new position.

The internationalization of the American economy has outrun people's understanding of its implications. More than ever before, we cannot put our own house in order except by relating the American economy to the rest of the world. In trying to do that we have trouble because our pluralistic methods greatly complicate our dealings with other countries. It is not just a matter of government and business, Congress and the President: the courts play a key part in economic matters; it is hard to know when a ruling on the environment or something else is final; the actions of independent regulatory agencies affect foreign countries; states and cities deal with foreign investors and Canadian provinces (it makes sense for New York to buy subway cars in Canada but Michigan and Washington do not agree). In my recent work I have been repeatedly struck with how many current issues I first encountered as an undergraduate in a seminar on government and business. They were hard problems then, when we rarely looked beyond the American scene; they are harder now when the international dimensions cannot be ignored, whether we are talking about coal, steel, antitrust, banking reform, or the Securities and Exchange Commission.

Macroeconomic policies that worked fairly well in the past have broken down and have not been replaced by anything worth having. America's adaptation to changes in the world economy and in technology is very incomplete. This is reflected in selective protection, high general unemployment, extraordinarily high unemploy-

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ment among some groups, the related deterioration of human capital and the educational system, the slump in productivity growth, reduced international competitiveness, low investment in times of high consumption, a variety of business practices and labor attitudes, and some aspects of inflation. The recent depression has made things worse, but recovery will not eliminate the basic problems.

On top of everything else, the United States has to cope with frustration. The world economy is not what many Americans expected it to be, or what they thought they were promised in the bargains that created the postwar institutions. The frustration that fueled the American outburst of disruptive economic nationalism in August 1971 can still be felt strongly today.

There are good grounds for some of these reactions but not for others. Americans are not free to conclude that the international economic system is tilted against them unless they also recognize that the United States has not been laggard in looking for special treatment for its own problems. It led the way in putting most agriculture outside the arrangements for trade liberalization (and now wants to push some back); it did the same for cotton textiles in 1961 and then, ten years later, for man-made fibers; since the 1950s the United States has pressed Japan to restrict exports of one product or another and then formalized such arrangements in Orderly Marketing Agreements extended to other countries. The list goes on: export subsidies that violated GATT rules; delays in conforming on other matters (American Selling Price and the injury test for countervailing duties); bilateral arrangements made without much regard to the multilateral rules (steel and autos). Foreigners have a right to ask how much weight their interests have been given in the shaping of American fiscal and monetary measures.

It is quite true that most other countries behave at least as badly as the United States in these matters and frequently worse. There is no doubt that some foreign governments and their negotiators believe they can get away with some things because the United States will not always retaliate in kind—or will not be effective if it tries, because its government is cumbersome and has its hands tied by legal limits and procedural requirements unknown in most other democracies. This only exacerbates matters and can lead to a good deal of trouble because the United States is not immune to economic nationalism. Support grows for the view that the United States should hit back, "give them a dose of their own medicine" and so on. If that approach is embodied in law, any American administration will have only limited freedom of action; if the approach gains

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strong political support, the forces that made for cooperation will be reversed. If that happens, they are likely to stay that way for some time to come.

Americans are in danger of misunderstanding their place in the world. Oversimplified statements about the decline of American power have confused people. How would we like it if Europe and Japan were still economic weaklings and no one in the Third World had reached the level of the NICs? The end of hegemony need not be traumatic but it requires adjustments that have not been handled very well. The United States and other countries share responsibility for this.

It is wrong to say that the United States is a country like any other. Our dollar and our missiles prove that. It is also wrong to suppose that American interests will be well served by old-fashioned narrow nationalism modified by contemporary neomercantilism. The final fallacy in this series is to believe that the loss of power means the United States has no responsibilities for the repair of the international economic system. True, the United States cannot do the job alone, but neither can anyone else. The United States has a veto but so do some others, and no one can be counted on to use it very constructively. Nothing major can be done without strong American participation and from that fact stem responsibilities.

Before they can act on these responsibilities, however, Americans have to do some serious rethinking about what they want in the world. They have to get used to defining their interests in terms of both the domestic economy and the world economy. Unless they are prepared to make some changes in both spheres, it is hard to see either why the international deterioration should come to an end, or how the American economy will overcome the obstacles to satisfactory performance at home and the ability to compete internationally.

Using the historical perspective of this paper, one could say that Americans need a sense of concern about their own economy comparable to what they had in the Great Depression—and about the world economy of the sort that they developed in the 1940s. Naturally, the measures taken in those earlier times are not right for today. It would mean little to say we need a New Deal, but let us recall that the New Deal was neither an ideology nor a full-blown program; it was highly pragmatic and comprised experimental approaches to many problems. We need some of that spirit now.

When I say we need to look at our relation to the international economy as we did in the 1940s, I do not mean that we should simply refurbish and patch up the structure of international agree-

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ments set in place then. For years my studies have shown that these arrangements are not adequate for the kind of world we live in now. It is vital to improve them, but that is only part of what needs to be done, as Miriam Camps and I have recently argued with regard to trade in *The New Multilateralism.*[1] Action will be needed in a number of fields—trade, money, energy, the debt issue and development finance, the relation of national economic policies to those of other countries, investment, industrial policy, raw materials and the movement of people. We should have long-run objectives even if they remain unattainable for some time, and also practical programs for immediate action. But we should not proclaim our adherence to such commonly heard objectives as a new Bretton Woods, or free trade, or getting the government out of the economy.

It is not "Bretton Woods" that has broken down, only the provisions for more-or-less fixed exchange rates. The replacement part—floating rates—has not performed as we hoped and itself needs repair. We also need a clearer understanding of the obligations of debtors and creditors to cope with troublesome debts. Our best chance to meet these needs is to build on the rest of the Bretton Woods system itself: the IMF, the processes that have grown up around it, and the basic principle that a common interest in money and finance requires continuous cooperation centered in an institution that both helps countries and puts pressure on them. "Free trade" has never been an American objective, is not mentioned in GATT and would not be accepted by many governments without massive and disillusioning exceptions. *Freer* trade is another matter. Getting the government out of the economy cannot be a realistic objective—for the United States or anyone else—no matter how desirable it may be to end various kinds of intervention and regulation. But there are questions about how the international impact of interventions should be handled when different governments have different practices.

It is hard to escape some use of oversimplified tags as shorthand, but to let them become the clichés of journalism, and then of speeches and policy pronouncements, is dangerous. By obscuring complexity they inhibit thought; by preaching perfection they invite accusations of hypocrisy and lay the foundations for frustration. If we want a single label, let us adopt Miriam Camps' coinage, "The Management of Interdependence."[2] This is not achieved by some

[1] Miriam Camps and William Diebold, Jr., *The New Multilateralism*, New York: Council on Foreign Relations, 1983.

[2] Miriam Camps, *The Management of Interdependence*, New York: Council on Foreign Relations, 1974.

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single act but calls for continuing, complex activities, domestic and international, which require more imagination, ingenuity and stamina than have been evident for some time.

VI

It is not the United States alone that has to show these qualities—or, for that matter, do the thinking that is called for about the international system. If other countries too do not exercise their responsibilities, then any efforts the United States may make will not arrest the deterioration of the international economic system (though they may improve the position of the United States). Not every country has to cooperate and not all have to play an equal part in every activity.

Indeed, one of the most difficult questions to be faced is which countries are crucial for which activities. The formula cannot be the same as in the 1940s; and this raises a delicate, even dangerous, issue. In a world in which some degree of equal treatment and some sense of reciprocity are essential to get sovereigns to cooperate, should one wait for a broad consensus or encourage a few major countries to push ahead of the rest? And can that be done without undermining the basic character of the system?

As countries go through these processes, they should be doing more than preparing negotiating positions. They should be talking with one another about directions, objectives and constraints. They should make proposals, however tentative. If other countries do not do this, they will encourage one of the worst habits of the U.S. government, which is to work out fairly ambitious programs on its own which take realistic account of the domestic play of forces needed to get support for them—and then to present to the rest of the world programs so tailored to American needs as to incite suspicion, and so linked to political bargains in the United States as to impede negotiation.

There is no need to think in terms of major new international conferences—within or outside the U.N. framework—to discuss all these matters. The time for that is in the future and will not ever arrive if the recent deterioration of cooperation is not stemmed. There is also no need to wait for new ideas. The failures of recent years have not come from lack of imagination or of practical proposals, but from the unwillingness of governments to adopt them. Naturally, new ideas are always welcome, and sometimes they provide just the twist needed to make something acceptable and manageable. More often than not, though, new ideas can only very slowly be built into bases for practical action. (One reason

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the American proposals to extend the principles of trade liberalization to services led to nothing more than a two-year study in GATT was that so few people in foreign countries had done any thinking about the subject.)

Prescriptions abound, and there is no space to lay out a detailed agenda or offer the author's favorite programs in some or all fields. The agenda lies to hand. Where better to start than with the issues on which governments have failed to agree for the last decade and more?

—The unfinished business of the Tokyo Round—such as tightening the conditions under which countries can temporarily restrict disruptive imports, breathing life into the codes on subsidies and other matters already agreed upon, and moving ahead in the directions proposed at the GATT ministerial meeting of November 1982;

—Serious negotiations about fitting the NICs more fully into the world economic system, plus a realistic appraisal of the long-run trade requirements of developing countries—this last could be linked to the handling of the debt issue, the newest big question and one which governments seem more disposed to cooperate on than other matters, perhaps because their fear is greater;

—A reassessment of the energy situation before too many countries go too far on the assumption that there will never again be an oil problem;

—Finding ways to deal with clashes among national industrial policies;

—Finally coming to grips with the better management of exchange rates, which may well require going behind them and asking if it might be possible to do something about the world's money supply and the cumulative effect of national fiscal policies.

The list goes on, but this is enough to show that what is missing is not an agenda but action on it.

Many people hold very strong views on these matters. But the larger need—of repairing the damage to the international system—will not be best served if each country insists on every jot and tittle of a particular way of handling a problem. Details are immensely important in international economic relations, but imperfect arrangements often work. Logic has its limits in human affairs and the world has done quite well with arrangements that could be shown on paper to be fatally flawed. Internationally as well as nationally—and perhaps even more so—we live with a constantly changing interplay of forces which cannot always be either prevented from hurting others or channeled toward constructive re-

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sults. As law is an incomplete remedy nationally, so are fixed commitments internationally—even if governments have agreed to them. James Madison laid out the fundamentals in Number 10 of *The Federalist*:

> The latent causes of faction are .... sown in the nature of man .... The regulation of these various and interfering interests forms the principal task of modern legislation ....
>
> It is in vain to say that enlightened statesmen will be able to adjust these clashing interests, and render them all subservient to the public good. Enlightened statesmen will not always be at the helm. Nor, in many cases, can such an adjustment be made at all without taking into view indirect and remote considerations, which will rarely prevail over the immediate interest which one party may find in disregarding the rights of another or the good of the whole.
>
> The inference to which we are brought is, that the *causes* of faction cannot be removed, and that relief is only to be sought in the means of controlling its *effects*.

Negotiation can itself be a process of education, showing what is possible and what people will tolerate in others even if they do not accept it in principle (or for themselves). Thanks to the situation described earlier in this article—the combination of interdependence with the problems of managing national economies—there may well be a need for innovations in the way international economic negotiations are carried on. The importance of international economic organizations in the process suggests that they should be strengthened. It should not be forgotten, though, that these are intergovernmental organizations and what they do depends on what governments will have them do. The primary need is for governments to realize anew the strength of their national interests in an effective system of international economic cooperation.

Some governments might come to a different conclusion, believing themselves better off pursuing "national interests" on their own. Then everything depends on their strength, their skill in using it and what other governments do. It is hard to believe that more than one or two important countries can choose the non-cooperative course without almost all following (though they may group together in bilateral or broader combinations). It is conceivable that the interplay of many such national policies will produce more benign results than those one generally associates with a world of rivals who think of their national interests rather narrowly, that is, in terms of conventional neomercantilism.

It is conceivable—but to me it is not credible. It can be argued that in the end these policies will cause so much trouble that countries will be forced to work out compromises and to move toward a new system of economic cooperation better attuned to the

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end of the twentieth century than what we have now. One has to ask how long that will take and what it will cost. Nor can one really be certain that better cooperation will be the ultimate course. It is exceptional to have the kind of arrangements that have marked the last 40 years. There is no reason to suppose that it will become the normal state of affairs. At best one can take comfort from Francis Bacon's remark, "Prosperity doth best discover vice, but adversity doth best discover virtue." He was, however, also the man who said, "Hope is a good breakfast, but it is a bad supper."

As my analysis has tried to show, there are reasons for the deterioration of international cooperation. I believe we are quite far along in that undesirable process; others take a less pessimistic view. Very likely the positive arguments of these last few pages fall into the category of "giving good advice to people who don't want it." Perhaps not enough people are sufficiently alarmed; perhaps they take it too much for granted that cooperation is the natural state of things because they did not live through the process of painstaking construction of what has been good but is still inadequate.

Certainly it is easier to see why international economic cooperation should continue to deteriorate than to see where the strength for its restoration will come from. There is only fragmentary evidence of a will to deal adequately with the basic structural problems of the American economy—and that will worsen our relations with the rest of the world. So we may well be on the verge of a new era in international relations—and a very unattractive one.

That ageless baseball pitcher, Satchel Paige, used to say, "Never look back, something may be gaining on you." But if you do look back, you may see that you are losing something.

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Nicholas Butler

THE PLOUGHSHARES WAR BETWEEN EUROPE AND AMERICA

Not for the first time, agricultural trade has become a live and contentious issue in Atlantic relations. Questions of access and protection have been subjects of constant concern to American farmers and traders since the establishment of Europe's Common Agricultural Policy 25 years ago. Now, though, under the pressures of surplus stocks of grain and falling farm incomes, there is a new area of contention—competitive subsidies designed to win or ensure shares in an erratic world market. Months of negotiation have failed to resolve the issue and neither the European Community nor the United States has shown any sign of being ready to sacrifice what both define as legitimate economic interests.

The bilateral relationship between the United States and the European Community has dominated international agricultural trade relations for the last 30 years. European and American attitudes to proposals for the liberalization, regulation or management of key agricultural product markets have determined the role and success of international institutions, and the fate of attempts to reach international agreements on agricultural matters. Domestic policy decisions, taken in Brussels and Washington, have determined not only the state of the world market but have also become important and divisive items on the agenda of trade talks, ministerial meetings, and summits.

The attitudes and policies of the two sides have not remained constant throughout the period; external circumstances as well as the dynamics of the domestic agricultural policies pursued on each side of the Atlantic have shifted the areas of contention. The issues at stake in the current set of bilateral negotiations—initiated after the ministerial meeting of GATT (the General Agreement on Tariffs and Trade) in November 1982 had failed to make any significant progress on agricultural trade matters—are very different from those of a decade or two decades ago.

They are also more serious. Unless those negotiations result in a major shift of policy on one or both sides, along the lines suggested

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below, even a temporary settlement will leave open the potential for future conflicts—conflicts perhaps inevitable in one form or another given the nature of agricultural policymaking and the lack of concern generally shown for the international or external effects of internal national policies.

At risk in a continued conflict are not just the resources misallocated, but also the cooperative Atlantic trade relations built up gradually over decades. Those good relations, reflecting common interests and not just a balance of advantage, underpin the wider political Alliance—which will itself be weakened if the consensus on trade is unraveled product by product.

The question is not simply whether an open and expensive conflict can be averted in the short term, but whether a longer-term solution can be found. On the evidence of recent history the chances are not good. The current agricultural trade dispute is neither a sudden squall nor solely the product of economic recession. Its origins, and the reasons for the failure to find a solution, can be traced back over several decades.

II

In the early rounds of GATT negotiations in the late 1940s and early 1950s, agriculture was not a central issue. Only 15 percent of international grain production was traded in 1950. The individual countries which were to become the member states of the European Community pursued generally protectionist policies, but limited technology left them with a significant import requirement—sufficient to satisfy the export capabilities of North American wheat and corn producers. In the United States, less than 20 percent of grain production went for export; exports were always important but had little of the crucial significance they have acquired over the last two decades.

In the early 1950s the central concern of the U.S. agricultural community was to preserve and protect agricultural development and the often hard-pressed American farmer from foreign trade. For years Washington dragged its feet in the face of attempts by GATT and exporting countries such as Australia to liberalize agricultural trade. As a recent study concluded: "The U.S. found itself having to defend its disruptive actions on agricultural import restrictions, disposal of surplus stocks and use of export subsidies"[1]—all elements of an agricultural policy tailored primarily to domestic farm prices and farm income support, not to trade expansion.

[1]T. Warley, *International Economic Relations of the Western World*, Vol. 1, Part 3, London: Royal Institute of International Affairs, 1976.

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In 1955, after several years during which the United States had been in violation of its GATT obligations because of its domestic policies, the Eisenhower Administration was finally granted a formal waiver of these obligations. Direct support of the U.S. farm sector, under legislation dating back to the 1930s, was made legal, but the opportunity to include agriculture with the other industries covered by the various GATT agreements was lost. The American action confirmed the view that agricultural policy was a matter for domestic decision, not international agreement.

Even then the problem of surplus grain was emerging, and export trade growing. But the balance of interests within the U.S. farm sector was still firmly on the side of those seeking protection.

That balance changed as the Common Agricultural Policy (CAP) of the newly formed European Economic Community (EEC) began to emerge after 1957. American negotiators entered the Kennedy Round trade talks of the 1960s with a nominal commitment to inclusion of agriculture alongside trade in manufactured goods in the GATT agreements, but there remained a degree of ambivalence at the heart of the American position. On the one hand, American producers saw the Europeans institutionalizing measures to protect national markets which their own exports would have difficulty in penetrating. The need for secure and growing commercial exports was increasing, especially for U.S. grain, the output of which grew by 25 percent between 1950 and 1960. From 1954 on, the Eisenhower Administration initiated and steadily expanded the PL480 program which distributed surplus grain on concessional terms to less-developed countries. Though productivity spurred on by technical advance was expanding at unprecedented rates, U.S. farmers were still suffering declining real incomes and were falling further behind their counterparts in industry.

That, though, was only part of the picture. Other U.S. farmers feared liberalization of trade since it posed a direct threat to their own livelihoods. The CAP as set out in the 1958 Stresa conference was by no means the rapacious monster which in U.S. mythology it has since become. "Compared with the widespread use of quantitative trade restrictions in national policies the basic instruments of the CAP looked rather liberal."[2] Price levels were not fixed, leaving open the prospect that traditional U.S. markets would not be disturbed. There was some emphasis on structural policy, which it was thought would reduce both the number of farmers and potential output given the right set of support prices. German interests

[2]S. Tangermann, "Agricultural Trade Relations between the European Community and Temperate Food Exporting Countries," *European Review of Agricultural Economics*, 1979.

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were thought likely to balance out the inevitable pressure from the French for a strongly protectionist agricultural system.

It was only over time that the highly protectionist nature of the CAP became apparent—in particular its system of variable import levies designed to insulate domestic producers from any fluctuations on world markets, and the very high basic support prices established to keep the most marginal producers in business. There were also political factors which softened the U.S. response to the CAP. The establishment of the EEC and the wider ideal of European cooperation were central to U.S. foreign policy objectives, and this tended to outweigh parochial agricultural concerns. The true difficulties which the nature of the CAP and the operation of its mechanisms were going to present to the United States only emerged later.

Within the Community, external protests from America and elsewhere were considered to be a marginal concern. The Community members were still large-scale importers of U.S. grain, were running a substantial deficit with the United States on agriculture trade as a whole, and did not take seriously the possibility that the dynamic effects of the CAP on the European farm sector would radically alter that situation. Disputes such as the "chicken war" in 1962–63—when the substitution of high CAP levies for the lower German tariffs which had existed previously on poultry imports cut the United States out of the market—were treated as minor squabbles. Once the mechanisms of the CAP had been agreed upon, the EEC had difficulty in responding to international challenges. The CAP was not only a major achievement of common action but also part of "an internal bargain, compensating agricultural exporters among member countries for the improved access to their non-agricultural markets which more industrialized countries had gained."[3]

It was in this context that the Community offered its major concession on the CAP in the early months of the Kennedy Round negotiations. Few Europeans took seriously American calls for fully open access, or for the exposure of agricultural trade practices to the full scrutiny of GATT. American attempts to have import levies converted to fixed tariffs, with the aim of reducing and eliminating those tariffs by the same percentage reductions applied to industrial trade, were regarded as naïve. U.S. hopes of forcing the Europeans to shift the basis of farm support to income supplements, and away from guaranteed prices which acted as incentives to production, were regarded as undue external interference in the domestic affairs of the Community—as well as hypocritical, given the failure

[3] *Ibid.*

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of the U.S. government to carry through a similar program at home.

Instead, the Community proposed what it regarded as a practical and politically realistic solution to the dispute, namely a "montant de soutien"—a freezing of all forms of support to producers of particular products, including grains. For the Community the offer was a genuine concession—in that it placed a restriction on measures considered to be essentially matters of internal policy—and at the same time a negotiating device, in that it established the CAP as an accepted and legitimized part of the international trading structure.

The proposal was that the agricultural part of the Kennedy Round negotiations should aim at consolidating all measures of support for agriculture, whatever their form, with an agreement that a ceiling of the total level of support would not be breached. The objective was neither harmonization nor the removal of subsidies, but the limitation of their growth.

To the United States the proposal became acceptable only in retrospect, as the consequences of the CAP on production and trade became obvious. At the time it was seen as an entrenchment of protectionist domestic policies and a step away from, rather than toward, liberalization or open access. The United States instead sought guarantees of access for particular products, including most prominently confirmation that soybeans would not be liable to import tariffs, in line with an agreement originally reached during the earlier Dillon Round of GATT talks.

Eventually, in order to avoid the breakdown of the overall trade talks, the EEC accepted bilateral arrangements with the United States which granted a number of specific tariff and access concessions on priority products. The grain negotiations were transferred from the Kennedy Round negotiations to the International Wheat Council's discussions on an international grain agreement.

Under the pressure of falling world prices, attempts to set an agreed floor price and to determine market shares for the main grain-exporting countries proved unsustainable, even though an initial grains agreement was negotiated and ratified. Disputes over the pricing formula led to a breakdown in discussions and a reversion to the well-established pattern of imperfect competition. The only part of the Grains Agreement which survived was a limited convention on food aid. The failure of the rest of the Agreement, after almost a decade of talks, reinforced the view that grain and agricultural trade in general were immune to the application of international management.

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III

It can be argued that by the early 1970s the United States had adjusted to the CAP—even though it maintained, in common with other exporters, a rhetorical commitment to open access and liberalization. The United States had begun to find new and highly lucrative markets in the Community: for example, exports to the EEC of soybeans, free of duty, had expanded by 50 percent in the decade up to 1970. Agricultural exports to the Community were higher than ever before and with soybeans in particular the United States had found a trade which the CAP, by pricing Europe's indigenous grain at a high level even to its own livestock producers, actually encouraged. EEC support for meat production also encouraged an expansion of European livestock, which, while a source of dismay for the Australians and other meat traders, ensured a stable and growing market for animal feed.

American concern at the absorption of the British market by the Community after 1973, and fears that Australia's and New Zealand's trade would be redirected from Britain to other markets, were mitigated for a time by the belief that British accession would lead to a fundamental alteration of the CAP, or at the least to an adjustment of common price levels downward—a belief justified not least by the commitments of British politicians.

American agricultural exports began to expand rapidly. Enlargement of the world market by Soviet purchases and by the growth of trade with Japan and the developing countries of Southeast Asia in the prosperous days of the early 1970s pushed exports of wheat as a proportion of U.S. production up to 76.8 percent in 1972. Some thought that the circumstances of that period—disappearance of stocks, rising Third World demand and Soviet imports—offered the possibility that the climacteric was past. That perception was not of course shared by all. For parts of the farming industry the development of the CAP and the extension of European self-sufficiency undermined previously secure markets. Therefore, although the Tokyo Declaration of 1973 (the statement of intent opening renewed trade negotiations) made clear the common acceptance of the special status of agriculture, the United States retained the hope that external and internal pressures would force change upon the CAP.

The target for the U.S. negotiators in the Tokyo Round was the widespread use of export subsidies and other non-tariff barriers. The twin aims were to secure existing agreements on access (particularly that relating to soybeans) and to ensure that the output trends of the farm sector under the CAP did not threaten U.S.

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markets elsewhere. Behind the U.S. stance there was emerging "a changed attitude to export markets—markets which could no longer be taken for granted and were no longer simply dumping grounds."[4]

The European position was stated in the Council of Ministers Mandate for the Tokyo Round: "The specific objective of the agricultural negotiations should be the expansion of trade in stable world markets, in accordance with existing agricultural policies . . . . by means of appropriate international agreements." In essence, the European approach to the problems of agricultural trade was one of international management, in the interests of supply security and price stability within a limited range, for markets which were proving to be insecure and volatile. The Community emphasized the disruptive effect of the U.S. soybean embargo in 1973 as an example of the instability which agreement on security of supply could mitigate. EEC representatives argued for some form of stockholding as a means of underpinning the market, and for the isolation of agriculture as a separate subject of negotiation, clearly distinct from the wider discussions of trade policy in the Tokyo Round.

In contrast to the U.S. desire to meet the problem of instability and world food shortage by making the market mechanism work more effectively, the Community favored international trade management—a reflection of its own internal approach to agricultural policy.

From the beginning the Community argued, in the words of the Mandate, that "the CAP's principles and mechanisms should not be called into question and do not constitute a matter for negotiation." It was a point the United States had come to accept as far as the internal workings of the CAP were concerned, though not of course its external effects.

Neither the American characterization of the CAP as "the ultimate in mercantilism" nor the European concern with world food security can be taken entirely at face value. The divergent approaches owed more to immediate interests than to any ideological conflict. The best way to assist U.S. exports was undoubtedly to argue for the abandonment of trade restrictions by importers—while for the EEC any argument which shielded domestic market management against external pressures was to be embraced.

The issue remained unresolved for over six years of negotiations, and was handled in the end only by a vague agreement signed by

[4]J. Hillman, "Policy Issues Relevant to U.S. Agricultural Trade," in *Imperfect Markets in Agricultural Trade*, ed. Alex F. McCalla and Timothy Josling, Totowa, N.J.: Allenheld, Osmun & Co., 1981.

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both sides in order to bring the trade talks to a close. The eventual resolution owed more to exhaustion than to genuine agreement. It left the EEC able to claim that its long-term aim of "legalizing the CAP" had been achieved, and the United States confident that the clauses of the agreement relating to export subsidies would limit the freedom of action of the EEC in attempting to win new markets. The American hope was that this would force the EEC to reform itself as financial pressures became the dominant factor in the calculation. That longstanding U.S. aspiration has yet to be fulfilled.

The key to the Tokyo Round settlement, and to the present disputes, lies in the clause of the 1979 agreement which refers to export subsidies. That clause binds signatories

> Not to grant directly or indirectly any export subsidy on certain primary products in a manner which results in the signatory granting such subsidy having more than an equitable share of world export trade in such product, account being taken of the shares of the signatories in trade in the product concerned during a previous representative period, and any special factors which may have affected or may be affecting trade in such product.

More than "an equitable share of world export trade" is defined to include "any case in which the effect of an export subsidy granted by a signatory is to displace the exports of another signatory bearing in mind the developments on world markets."

IV

Although the intention of the clause may appear clear, much scope for disagreement remains. The Community has always regarded export restitutions[5] as an integral part of its domestic agricultural policy, a redistribution of EEC income to EEC farmers and not to foreign buyers. The fact that they enable farmers to sell at or below world market prices, and that farmers can rely on the availability of credit, often on terms very favorable to the importing countries, does not in the EEC view constitute a particularly aggressive trading policy but rather normal commercial practice, simply matching the export promotion of other countries, including of course the United States.

The Community has come under constant pressure from those member states with strong agricultural sectors, particularly France, and from the agricultural lobby generally, to develop an explicit export policy. And the demand for a sustained export strategy has

[5]Export restitutions are payments to producers which allow them to compete on the world market. They now account for 45–50 percent of the EEC farm budget.

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grown stronger as the problems of surplus disposal have increased. The French view has been expressed by Henri Nouyrit, the Deputy Director of the French Confederation of Agricultural Cooperatives:

> For exports there is no real policy. So called "surpluses" are disposed of as the opportunity arises. There is no plan for exports, no medium term policy. Exports have become a sort of undesirable adjunct to intervention. Financial preoccupations over export restitutions have inhibited a proper commercial policy involving an effort to establish permanent trade flows, to seek out new markets and to develop commercial instruments such as credits and long term contracts.

To an extent the Commission has shifted toward the French position. The notion of long-term contracts and special credit facilities has been floated on a number of occasions. The Commission's *Reflections on the CAP*, published in 1981, talked openly of pursuing the success of its exports in coming years "by providing the CAP with instruments similar to those enjoyed by major agricultural exporting countries (the United States, Canada, Australia and New Zealand), in particular the ability to conclude long term agreements."

Over the last few months, although Britain and West Germany are reported to be less than fully convinced, the Commission has "coalesced around the proposition that the Community should at least have the instrument [in Community jargon, "framework agreements for multiannual supply"] available."[6] Thus, barring another change of policy, we can now expect sales agreements, of three to five years duration, to be signed between the Community and a number of importing countries. From the European point of view at least, it is clear that such a policy would encounter no problem in terms of the Tokyo Round agreement.

In the United States, however, both officials and commentators believed that the Tokyo Round settlement in 1979 marked a firm agreement, with the internal arrangements of the CAP accepted, but the role of subsidized European output on world markets firmly restricted. Their disillusionment explains some of the anger which has crept into the current dispute.

World market conditions have given the argument its new sense of urgency. Since 1980, despite exceptionally large-scale Soviet imports and the development of a regular and apparently secure Chinese market, world prices for grain have continued to fall and stocks, held involuntarily, have continued to accumulate. The U.S. farmer-owned reserve, a temporary stock-holding measure when it was introduced in 1977, has expanded remorselessly to well over

[6] *Financial Times*, August 9, 1982.

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100 million tons at the end of the last crop year. U.S. yields, productivity and total output have continued to grow, but the shortfall of effective demand, in what has become a buyers' market, has both pushed up the cost of government support and left farm incomes falling.

To these problems there has been added, over the last year in particular, a switch in Soviet purchasing patterns away from the United States, and toward "more reliable" suppliers such as Canada and Argentina. This reversal of grain power in retribution for the 1980 partial embargo has persisted despite offers of substantial sales and has left the unfortunate U.S. farmer, once the provider of three-quarters of Soviet needs, no more than a residual source of supply providing no more than a fifth of Soviet requirements over the last year. The new U.S.-Soviet grain agreement negotiated in July 1983 provides little relief. The minimum level of assured purchases by the U.S.S.R. has been increased, but only by three million tons a year.

It is not surprising that the mood of farmers and traders alike is gloomy. In the words of Ted Halow, the executive director of the North American Grain Exporters Association: "The world grain trade is shrinking, the 1970s are behind us, the period of rapid grain expansion is behind us . . . . probably forever."

It is understandable, given this mood, that the United States should have reacted so strongly to the European interpretation of the Tokyo Round agreement and to the drift of European policy. Since the Tokyo Round agreement was signed in 1979, European exports of wheat have risen by over 100 percent. European production has grown while internal consumption is barely rising, generating an increasing surplus volume for export. Though the EEC export trade is still small by American standards, every ton has become a subject of controversy given the condition of the market. Ted Halow's comment that "European farmers are producing not for consumers but for intervention" is difficult to refute. The degree of farm support has been the subject of sustained statistical dispute. While the EEC prefers to talk in terms of support per farmer, since that is the measure which favors its conclusion that European support levels are reasonable and fair, the United States with its larger farms quotes figures on support per unit of output. Numbers games apart, the impact of European support levels on production and exports is not in dispute.

Clearly the absolute level of European support, plus the security of income for each unit of production without limit, has induced added production. Saturation of demand at current price levels has

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created surpluses which depress world market prices and require disposal. The system of export restitutions has allowed European farmers to export at world market prices—prices which their own production costs could not sustain. The effect of this is not of course limited to the grain market. In 1974, the Community was a major importer of dairy products, sugar and beef. By 1981 it had become the world's largest dairy exporter, number two in world sugar trade and the exporter of over 60,000 tons of beef.

The United States too has supported its producers, though the level of support per unit of output is lower and the blanket guarantee of income given to the European farmers is absent.

V

U.S. production costs are undoubtedly lower, and on economic criteria of comparative advantage the U.S. case is strong. Such criteria, however, are unlikely to form the basis of any settlement of the current dispute. There may be much justice on the side of the United States, but the complications of the U.S.-European relationship in agricultural matters (and beyond) will make a resolution favorable to the United States more difficult to achieve than the Administration may imagine.

For the last year the dispute has been conducted through rhetoric. On the U.S. side, Assistant Secretary of Agriculture Seeley Lodwick has described the European strategy as "targeting key US markets . . . seeking to shift the cost of domestic programs to other trading countries through unfair competition." Turner Oyloe, the U.S. agricultural attaché in London, speaking to the Oxford Farm Conference last year, argued that if the CAP were carried to its logical conclusion, "greenhouses should be installed in Ireland to grow oranges, bananas and coffee." John Block, the Secretary of Agriculture, accused the EEC of "literally stealing markets away from the U.S., Canada, Australia, the developing countries and others in sugar, poultry and wheat." In January of 1983 he was reported to be pressing President Reagan "to fight fire with fire."

The aggressive response from the European side has come mainly from the French. Even as the discussions set up after the GATT ministerial meeting of November 1982 were getting under way, Edith Cresson, then the French Agriculture Minister, accused the United States of "exporting its economic crisis" and said that its new farm policies were "motivated by domestic political concerns." The Commission itself has been less strident but equally unyielding. Its annual review of the agricultural situation in the Community, published at the end of 1982, says:

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The Community's relations with its GATT partners in so far as agriculture is concerned were marked by an intensification of the attacks on the CAP. Certain agricultural exporters—in particular the United States—invoked GATT dispute settlement procedures to pillory various aspects of the Common Agricultural Policy. . . . The Community reacted to these attacks with moderation, and a determination to show that it complied scrupulously with GATT rules.

The resurgence of the rhetoric at the beginning of 1983 marked the end of a brief period during which it appeared that an amicable resolution was being sought through negotiations. In advance of the November 1982 GATT meeting, Block emphasized the limited nature of the U.S. challenge: "We don't challenge the CAP—but we do challenge the export subsidies that make it difficult if not impossible to compete." Both Block and William Brock—the President's U.S. Trade Representative—were reported as declaring that there would be "no trade war," and the agreement to initiate bilateral discussions after the Geneva ministerial meeting seemed to confirm the view.

For a brief period the United States appeared to be seeking ways to limit production as its way out of the twin problems of surplus stocks and low income. The payment-in-kind (PIK) scheme, through which the Administration hopes both to reduce stocks and to cut production by inducing farmers to leave up to 25 percent of their land unplanted, was pursued by President Reagan despite an initial failure to win formal congressional support. The scheme was reported to be considered "a supply side solution" by the Administration and an indication that "the President and the Secretary of Agriculture have apparently abandoned hope that export expansion and large-scale sales to the Soviets will absorb the huge American grain surplus."[7]

It soon became clear, however, that the PIK program was not a complete solution, and that there were many in the U.S. Administration unwilling to see U.S. agriculture absorb all the costs of what they regarded with some justice as unfair European competition. The effect of a 25-percent cutback in production, if sustained over several years, would be harsh on local business in the affected areas and on those major companies whose survival depends on sales of farm equipment, machinery and fertilizer. From the farmers' point of view the scheme offers no major cut in overheads, nor any promise of increased income, and the incentive is for each individual to maximize the benefit to himself by leaving his least productive fields unplanted and by raising the yield from the rest. There is

[7]*Financial Times*, January 6, 1983.

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only limited confidence in the trade that the price rises seen on U.S. markets since the scheme was introduced can be sustained. The irony of the fact that a major beneficiary of any rise in prices is the CAP (because of the reduced cost of export restitutions) has not been overlooked.

As the debate on payment in kind proceeded, the advocates of a firm policy against the European Community gathered strength and support. At the beginning of December 1982, Richard Lyng, the Deputy Agriculture Secretary, was reported as saying that his department was "preparing a plan and package in response to the European stance on agricultural subsidies—updating its list of U.S. exports which might be subsidized—chickens, eggs, raisins, wheat flour and pasta." Proposals were put forward for extending the payment-in-kind scheme to exports—granting purchasers additional supplies from existing stocks at discount rates. Senator Jesse Helms, supporting the proposal, told the Senate agriculture committee that "the EEC's right to swing their export subsidy fist ends at Uncle Sam's nose." President Reagan, in a speech to the American Farm Bureau Federation, announced that he was extending the Deputy Agriculture Secretary, was reported as saying that his department was "preparing a plan and package in response to the European stance on agricultural subsidies—updating its list of U.S. exports which might be subsidized—chickens, eggs, raisins, wheat tons of wheat flour to Egypt came as the unsurprising conclusion to this long period of verbal exchanges. Taken alone, the subsidized sale would displace a limited amount of European exports (the Community supplied 600–700 thousand tons of the total Egyptian market of 1.6 million tons last year), but as an example of possible further U.S. action around the world its impact is substantial. Sales of subsidized butter to Egypt are reported to be under consideration, and negotiations on the possibilities for subsidized sales of wheat, maize and other products to a substantial number of markets are under way. They include at least five (Portugal, Yugoslavia, Morocco, Pakistan and Yemen) as well as Egypt which are considered traditional EEC outlets. What remains unclear, however, is the nature of the U.S. strategy and the extent to which it can overcome the weaknesses in the U.S. position.

Leaving aside the legality of American action under GATT rules, a matter which is now the subject of an EEC challenge, a strategy of sustained subsidy of exports raises a number of problems and leaves the key political issue for the U.S. Administration—low farm incomes and the accelerating rate of farm bankruptcies—untouched.

In the tight and controversial U.S. budget situation, the agricul-

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ture sector is already a problem. The government's farm price supports were expected to cost $6.5 billion in 1982; their actual cost was twice as great. And the initial estimate of a drop to $1.5 billion in 1983 is now clearly unrealistic; current estimates run as high as $12 billion for the PIK program alone.

In this context, the sale of one million tons of wheat flour to Egypt, even if reports of a discount of $25 per ton below the subsidized EEC prices are correct, is of course well within the means of the U.S. government. However, disposal of even 10 or 20 million tons of the current stocks of over 100 million tons will begin to pose a significant burden. That cost will rise if the proposals now being discussed in the Community for matching subsidies are pursued. There have already been French calls for sales to Egypt to receive a special subsidy, and a special rebate has already been given to the Chinese in order to secure a sale of 600,000 tons of wheat.

Unless subsidies are able to win a significant additional share of the world market for the United States, there would also be balance-of-payment costs from falling real prices. Given the Community's current pricing policy, and the smaller volume involved, the additional input of Community resources required to match U.S. subsidies would be rather small. The cost to both sides would of course increase if the conflict spread to other agricultural products in the dairy sector or elsewhere.

It is the prospect of a lower world price which poses the most serious problem for the advocates of an all-out U.S. export subsidy strategy. Unless production is adjusted downwards (a slow and difficult process given the limitations of the price transmission mechanisms and the strength of national policies), any price fall would clearly damage the interests of U.S. farmers and traders who rely on world market prices. The prospect of a spiral of higher subsidies and falling prices must be a cause of considerable concern to an Administration with a budget deficit of $200 billion and a hostile farm sector whose incomes have fallen by as much as 20 percent in three years, and whose lobby groups are now calling on the Administration not simply to challenge the CAP but to create a structure of agricultural support in the United States along the lines of that in Europe.

It is also clear that some of these potential costs are well perceived by the Administration and that the subsidy for the sale to Egypt may represent a "warning shot" designed to make the European Community reconsider its policies rather than the beginning of a long-term subsidy policy, or part of a well-planned trade offensive.

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Moreover, the impact of any such offensive on U.S. exports to Europe may not have been assessed in full. In agricultural trade as a whole the United States has a net surplus with the Community of some $6 billion per year ($7 billion in 1981). Soybean sales alone have sustained and indeed improved the net U.S. trade balance with the Community. Current U.S. action risks retaliation which may well add the cost of lost European markets to the cost of subsidies.

The fact that half of U.S. agricultural exports to the EEC enter the Community duty free has already been noted by the French, who have proposed a ceiling on soybean imports—which are immune from import levies under agreements signed 25 years ago, and which have risen four-fold in volume since then. To the Community as a whole, the imposition of such a levy in breach of past undertakings would be a measure of last resort, or as one commentator put it, "an ultimate deterrent." But its use cannot be ruled out if measures are taken by the United States that appear to be equally outside the existing rules.[8]

In the medium term, a more likely response would be the use by the Community of its control over the price mechanism to reduce consumption of imported products, such as soybeans, by providing some inducement to European animal feed producers to use some of the current EEC surplus supplies of grain—at present priced out of the market. Poul Dalsager, the EEC agriculture commissioner, has already announced plans to make two to three million tons of surplus cereals available for feeding to livestock at subsidized prices.[9] A mixture of the two proposals—a levy on animal feed imports, the proceeds of which would support the use of home grown grain—would reduce the costs and also reduce the volume of surplus grain to be exported (therefore also reducing the burden of export restitutions required). The cost to the Community would depend upon the level of duty set, and the degree of subsidy to animal feed producers to meet all or part of the difference between the cost of current imports and the cost of Community produce. To reluctant governments within the Community, the approach might be presented as a means both of securing the CAP—an important symbol of the Community's existence for all its faults—and of averting a trade war of export subsidies by diverting some

[8]In the studiously vague prose of the Commission's 1981 *Reflections on the CAP:* "The Commission will continue to honour its obligation including those contracted in international organizations but at a time when new restraints must be imposed there must be more vigilance over the import of certain feeding stuffs and similar products. These measures would help to arrest the excessive rise in imports of these substitutes."

[9]*Financial Times*, April 21, 1983.

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currently exported grain back into the Community itself.

There are many possible variations under consideration, including the French idea of a volume limit on soybean imports (with or without a levy). They would all cost the Americans their growing market in the Community and a part of their positive trade balance with Europe. Although current European export markets might be reduced or held static as grain was diverted to internal use, the gain for some U.S. exporters would be matched by the burden of unsold soybean crops.

VI

For the moment, the negotiations begun last December continue, but it is difficult to find one official, European or American, who believes that a resolution is imminent. On the American side, the hope persists that the EEC's budget problems will force a radical change of policy in relation to agriculture. To the European side, American plans—in relation to export subsidies and the payment-in-kind scheme—appear ill defined and uncertain. Both sides harbor the hope that a sudden world shortage of grain will solve the problem, and avert the need to put on the negotiating table the domestic agricultural policies which have created the current difficulties.

All seem to be false hopes. Stocks remain exceptionally high and even the tightening of the markets in recent months will not be sufficient to reduce them to normal levels. The EEC has made repeated assertions of its wish to bring its own prices into line with those prevailing on world markets, but the speed of change has been very slow, and productivity growth has outstripped the very small decline in real prices—with the result that output has continued to rise. The EEC budget ceiling does now pose a problem for the ten member states, but there is no certainty that a reduction in agricultural spending would be the outcome of any agreement on economic restraint. Indeed, there is a good chance that increased spending levels could be agreed upon if it appeared that a slight increase in resources would contribute to a widening of the range of European activity, and to the solution of the separate issues of imbalanced national contributions. No agreement is yet in sight, but it would be wrong for the U.S. Administration to calculate on the basis that one will never be reached.

Equally, it seems unrealistic for Europeans to assume that the U.S. government will absorb all the cost of the downturn in world markets. The fact that under the payment-in-kind scheme the United States is paying its farmers not to produce while output

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from Canada, Argentina and the EEC is increasing has not gone unnoticed. Many in the Reagan Administration would undoubtedly be happier pursuing an aggressive export policy instead of making such payments. Tempers have not been improved by the negotiations for a new grain agreement with the Soviet Union, which found the United States in the role of supplicant. The terms of that agreement, including a clear guarantee that grain supplies would not be embargoed again under any condition short of war, emphasized the weakness of the U.S. bargaining position.

Neither side can seriously expect world market conditions to solve the problem for them. Wheat stocks, according to the International Wheat Council, are now running at some 170 metric tons,[10] and for the year ahead the chances are of increased output in the Soviet Union, Australia, Argentina and other producing countries.

For the moment it may well be that diplomatic concerns take precedence over agricultural issues, and that the grain dispute will be muted as the Alliance concentrates on crucial political and strategic matters, in particular the issue of missile deployment. But the removal of agricultural disputes from the headlines to, say, a bilateral committee charged to research and report, should not be mistaken for a solution. Agricultural trade will return to the agenda again and again until a solution of some permanence is found. Conflict over grain and other agricultural products, particularly dairy produce, will reassert itself even if a temporary ceasefire is pasted together.

VII

Can an acceptable and lasting solution be found? For all the immediate difficulties I believe that the answer is yes. There are many in the EEC who seek a more rational agricultural structure, and who do not wish to see the Community become simply a Farmers Union. In the United States, farm spending is already casting a long and unwanted shadow over the federal budget.

The long-term solution to the common problem lies in a joint agreement on the reduction of subsidies. Washington has already frozen its dairy support levels for four years, and is now proposing the freezing of target prices for grains. The EEC has made gentle cuts through a formula which cuts prices by one percent for every one million tons of production over and above planned levels. Greater reductions, in nominal as well as real terms, will be needed to reduce output given the pressures of technological advance.

[10]International Wheat Council, *Market Report*, June 1983.

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A program of such cuts, with eventual stable production targets, should be agreed. So, too, should a strict ceiling on export subsidies, in order to prevent the disruption of the world market and for the purpose of avoiding the gross misallocation of resources which subsidies involve.

Over any interim period some temporary agreement for the allocation of markets may also be necessary—though a full-blown formal agreement is probably unattainable as well as undesirable.

There would be no one clear winner from such a solution. The United States would retain its world markets so long as it could compete with Argentina, Canada and other producers on price and on the security of its supplies. In the EEC, grain production would plateau and lower grain prices might stimulate the use of grain by the neglected indigenous livestock sector. On both sides the direct costs of subsidies and restitutions would be reduced, freeing resources for alternative investment in other agricultural sectors, or in other parts of the rural economy.

Though the importing countries of the world undoubtedly benefit from the subsidies poured into agriculture by the exporters, cheap grain imports have proved a disincentive to the development of production. Given the appropriate response, the reduction of subsidies would have beneficial effects here too.

A move toward such a solution would require from both the European Community and the United States something more than consent to particular sets of figures and timetables. It would need a willingness to see agricultural policy in international and not strictly national terms, and a change of direction against the trend in so many other sectors. There is sadly no sign as yet that any such willingness exists at the political level.

More likely for the foreseeable future is a continuing conflict, with sporadic outbreaks of hostilities. Leaving aside the waste of resources which that implies, the chief concern must be that agricultural disputes, after arguments over steel and the question of East-West trade, will contribute to the undermining of the cooperative trading relationship built up over the last four decades.

In trade matters Europe and America are already beginning to look less like partners and more like adversaries. Disputes over the last few years have had a corrosive effect on the trust which should form the basis of the Alliance. Further disputes, whether conducted through rhetoric, selective statistics, or open measures of economic warfare will do nothing to repair the damage.

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Edson W. Spencer

JAPAN: STIMULUS OR SCAPEGOAT?

Japan is today our largest overseas trade partner and the primary source of competition for American industry. This article, therefore, focuses on Japan and to some extent on the electronics industries—including computers, semiconductors and other industrial and consumer electronics equipment—as typical of the high technology areas where competition with Japanese firms is most intense. Most of the measures which will help to make the American electronics industries more competitive apply equally to all American industry.

Although Japan is the focus, it is important to keep in mind that many of the problems touched on in our trade with Japan apply, sometimes with greater force, to our trade with other nations. Germany, the United Kingdom and France, for example, have all taken strong measures to support their high technology industries. Even before the socialists and nationalization, France was a far tougher market for American electronics companies to penetrate than Japan.

This is not a propitious moment for the multilateral trading system that has contributed so much to economic growth and prosperity since World War II. The alternative of returning to the protectionist Smoot-Hawley tariff era of the 1930s is not a viable choice. The first major country to expand broadly into protective measures is sure to be met with retaliation by its trading partners. A spiraling down of world trade is all too likely to occur, unless those of us who believe in the benefits of the free trading system are willing to work hard to preserve it from the attacks of industries that suffer from imports taking over their markets, and from legislators who quite naturally respond to the pressures of their voters, particularly when unemployment is a major problem.

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II

The strength of the Japanese economy, and in particular its electronics industries, is a product of Japanese government policy which has created a consistently favorable climate for Japanese business and taken special measures to help the Japanese electronics industries. Each of these areas needs a careful look.

Japan starts with the advantage of knowing that she has to export to survive. That focuses the minds of government officials and businessmen, to an extraordinary degree, on the need to be competitive internationally, to be competitive against the world's best firms.

In a little more than a hundred years, Japan changed from a self-sufficient, largely agrarian society, most of whose people lived close to subsistence, to a wealthy, highly industrialized nation whose demand for food, energy and many industrial imports far outstrips the extremely limited natural resources of the Japanese islands. Between 1885 and 1935, the Japanese economy grew at the average rate of three percent per year, a credible sustained growth rate over a half-century. The astonishing Japanese recovery, after the devastation of World War II, is now a well-known story. The high growth of the 1950s and 1960s, averaging about ten percent per year, slowed sharply after the first oil crisis of 1973–74, but the Japanese have so far managed the transition to lower growth effectively, restraining inflation and quickly correcting the trade deficits which followed each of the oil crises.

Through this whole period, the Japanese people, starting from early youth, have been indoctrinated with the importance of international trade and the need to export in order to secure the imports without which the Japanese economy as presently structured literally could not function.

The strength of the Japanese economy begins with the people and their society. There are those attributes for which Japan is renowned: a dedication to hard work and high productivity; the drive to reverse her pre-war reputation for shoddy quality; a high level of education, particularly in engineering and science; innovative management; a goal-oriented work force; and good labor-management relations.

The Japanese also have the highest savings rate among industrial countries, making available a relatively larger pool of capital for investment than other countries enjoy. Roughly one-fifth of disposable income is saved by individuals, which is roughly four times the American rate. Many explanations for this high rate of savings are

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put forward, such as the bonus system which may supply up to 50 percent of income in one or two lump sums per year, the need to save for large expenditures since consumer finance is relatively underdeveloped, and a social security system that until recently provided only modest benefits. In the end, however, most conclude that the Japanese are, by nature and history, a fiscally conservative people who have a strong belief in saving for a rainy day.

The homogeneity of the Japanese population is another great source of strength. The Japanese have learned to work together without constant resort to courts, to recognize their mutual dependence, and to support national goals. Our more confrontational lawyer-ridden nation uses up a great deal of national energy and talent in nonproductive internal debate. The Japanese have their intense internal debates too, but the fact that we have roughly 20 times more practicing lawyers per capita than Japan and that the Japanese with half our population are training more electrical engineers each year should tell us something.

Government policy in Japan has promoted a favorable climate for business. Important advantages, often not well understood here, flow from the capital markets and financial system promoted by the authorities.

—First, the high savings rate in Japan is encouraged by tax incentives which enhance the other reasons for saving.

—Second, borrowing for consumption, including housing, is discouraged, simply because the consumer lending and mortgage markets are underdeveloped. This is in contrast to the United States, where mortgage and consumer-credit markets are highly sophisticated, government underwrites housing loans, and consumer and mortgage interest are tax-deductible.

—Third, Japanese companies tend to be much more highly leveraged than American and, to some extent, European companies. Their high ratio of debt to equity capital is supported by the banks and, in turn, by the Ministry of Finance and Bank of Japan.

—Fourth, return on shareholder's equity and quarterly and annual earnings results are of less concern than in the United States in measuring corporate performance. Management is freer in Japan than in the United States to accept lower profit margins and to invest for long-term results. Sales growth and market share are more important than earnings per share. Dividends are generally measured as a return on capital at par value rather than as a percentage of earnings. Acceptance of lower profit margins means that more money is available for Research and Development (R&D) by three or four percentage points; indeed, some

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studies suggest that Japanese companies, relying heavily on borrowed funds, have a five to six percent advantage over American competitors with their greater dependence on equity markets.

The net result of these financial differences is that Japanese firms can finance their growth with net profit margins in the two-percent range, far below what is required by an American company to attract the capital to finance growth.

These factors, which favor Japanese industry in worldwide competitive markets, are going to change very slowly if at all. For American industry, it is important to understand the financial advantages enjoyed by Japanese competitors, and then to see what can be done on our side to give us a more competitive position.

Another financial factor which has worked to help Japanese exporters in recent years and which is partially the product of Japanese government policy is the weak yen. This weakness, with the corresponding relative strength of the U.S. dollar, is an immediate and major source of advantage to Japan in exporting. At the same time, of course, it results in a higher cost of importing products from the United States, as well as petroleum from OPEC which is priced in dollars. Japan has been accused of managing the exchange rate in a way that keeps the dollar high relative to the yen, but there is little evidence to indicate that this is the intent of Japanese foreign exchange policy. Rather, a weak yen is the result of a number of external and internal factors—many of them systemic—that determine interest and exchange rates.

External factors include principally the high rates of interest in the United States, which have attracted massive short-term capital flows from Japan. This has increased the demand for dollars in terms of yen and kept the yen weak. As U.S. interest rates decline toward Japanese levels, the parity will shift in favor of a strengthening of the yen, and toward a more realistic yen/dollar relationship.

Perhaps more important over the long run, however, is the conscious insulation of the yen from world interest-rate trends. The high Japanese savings rate makes available a very large source of capital for investment. Deposit of these savings in demand-deposit, low-interest postal and other savings accounts; traditional frugality in borrowing for consumption; emphasis by government-sponsored intermediaries, such as the Japan Development Bank, on channeling funds toward business investments; and tax and financial-measurement systems that favor industrial over consumer borrowing—all these factors help make large sums available at low interest rates for productive investments in industry. Low interest rates are

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further encouraged by the Ministry of Finance. For example, it still limits certain capital inflows as part of a domestic monetary policy which has consistently stressed low interest rates.

The net of it all is that as long as Japanese interest rates remain below those in other leading industrial countries, and as long as government policy partially insulates Japan from free international capital flows, the yen will tend to remain weak. In addition, inflation in Japan remains low, which helps to keep interest rates low. From Japan's point of view, low inflation and low interest rates interact to reinforce each other and to encourage domestic investment. This favorable (from Japan's point of view) exchange rate results in exports being more competitive and imports more expensive, an outcome comforting to a country that must export to survive.

Japanese industry has also been protected from foreign competition. Japan ended World War II with its industry destroyed and capital wiped out. Strong protectionism fostered by the Ministry of International Trade and Industry kept out more competitive American and European products and restricted incoming investment while Japanese industry was rebuilt. High debt levels, financed by short-term bank borrowing underwritten by the Ministry of Finance and the Bank of Japan, restored the capital base.

Japan, however, kept the protectionist walls up too long. Tariffs, quotas and other forms of import restrictions have come down only gradually, and after intense pressure and threats of retaliation from Japan's trading partners. Voluntary export restraints by Japanese industries have generally been implemented after employment levels in U.S. or European industries were threatened or actually declined, and political pressure mounted for protection.

Japan would have better served her cause as a major beneficiary of the postwar movement toward a free-trade system if concessions had been negotiated in anticipation of the employment dislocation caused by excess exports to other markets, rather than after the dislocation occurred. The examples in textiles, steel, television and, most recently, autos are well documented. A major threat to the U.S. electronics industry is clearly a present danger.

As of today, the argument can be made that Japan is as open as any industrial market except the United States, and that the remaining barriers to freedom to import are being reduced. However, it should be pointed out that legal and administrative barriers still remain. Those barriers have been well documented elsewhere, most recently in a report by the U.S. Trade Representative, "Japanese Barriers to U.S. Trade." They include quotas on certain products (which are illegal under the General Agreement on Tariffs and

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Trade—GATT), two-tiered tariffs, arbitrary use of standards and testing procedures on imports, customs delays, and labeling regulations. Participation of foreign firms in Japanese government R&D projects is still difficult. It is at least suggestive that only seven percent of U.S. electrical equipment exports go to Japan as compared to 44 percent going to Western Europe.

The Japanese anti-monopoly law has not been vigorously enforced in the past, and provides for exemptions that permit the creation of cartels in certain cases. Administrative guidance is also a common practice to encourage informal cartels, which might be prohibited by a strict interpretation of the antitrust laws. Recent examples are in the soda ash and aluminum-smelting industries, where imports have been restricted, inefficient domestic producers protected from foreign competition, and guidance provided to buy domestic products.

The 1980 foreign exchange law liberalized foreign direct investment in Japan. However, in certain sectors and 11 designated firms, the amount of foreign direct investment is still limited. More important, foreign investors still have to file a detailed notification describing the scope of the investment with the Ministry of Finance, which reviews the investment with other affected ministries. The government has 30 days for review, and if no action is taken, the investment can proceed. This is a long step toward liberalization from the days when every investment required lengthy screening and positive approval, but it still leaves open the possibility that an application will be rejected on political or bureaucratic grounds.

When and if all the remaining legal and administrative barriers are removed, however, there still remain what can be called systemic or cultural obstacles that will make it difficult for foreign companies to do business in Japan. Among these are:

—a multi-tiered and inefficient distribution system;
—a tradition against acquisitions;
—very different employer-employee relationships than we are used to in the United States;
—the tradition of exporting, importing and trading internally through trading companies, which in turn are tied back through banks to groups of operating companies;
—long, close and not easily changed vendor relationships;
—a historical distrust of things foreign and a resulting "buy Japanese" tradition.

Finally, the Japanese government has helped to create within the Japanese business community a sense of direction and priorities which worked particularly well while Japan had the clear goal of

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catching up with the West. Through an elaborate structure of consultative committees, the government brings together industry leaders for fairly continuous discussion with government bureaucrats on the future of specific industries and the outlook for the economy as a whole. Priorities are set and key firms, with encouragement from government, are brought into cooperative arrangements to develop basic technologies in the industries of the future. As the basic research reaches the stage where commercially useful products can be foreseen, the cooperating firms resume their usual fierce competition with each other for domestic and international market shares.

The electronics industries in Japan have received special encouragement from the Japanese government, with the Ministry of International Trade and Industry playing a key role. MITI is not always omniscient, as evidenced by its resistance to Sony's request to import transistor technology when it was first developed. And there have been other MITI failures. However, MITI's record on the whole is impressive in helping to guide and stimulate Japanese business.

Working through the consultative mechanism of MITI, the Japanese government in the late 1950s identified transistor technology as a high priority for the future of Japanese industry. This was followed in the 1960s by computer technology; in the 1970s by integrated circuits; in the 1980s by very large integrated circuits; and now by fifth generation very large computers. ICs and now VLICs are, of course, the essential elements of the microelectronic revolution which is fueling Japanese domestic and export industries. ICs have been likened to oil as the essential input of twenty-first century industry. Teams of companies have been organized with modest financial help from government to tackle such fundamental problems as producing and developing new generations of computers, enhancing software, and designing and producing VLICs. These programs certainly helped Japanese firms build an R&D base, and in turn a competitive electronics industry on a world scale. It was no accident that Japanese exporters were ready to capture 70 percent of the commercial market for 64K RAM chips in the United States, when U.S. manufacturers failed to export capacity fast enough to meet demand.

MITI and Nippon Telegraph & Telephone in the mid-1980s have each established programs to produce the fundamental technology to make it possible for Japanese companies to develop the fifth-generation computer. This computer is intended to be a gigantic leap forward in computing power which will vastly exceed the most

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powerful computers on the market now, and will incorporate artificial intelligence. These programs involve the cooperation of a number of the top electronics firms in Japan. It is noteworthy that IBM, which produces in Japan through a large Japanese-run affiliate and which has an important share of the Japanese computer market, has been excluded from these efforts. There is doubt whether the Japanese can achieve their ambitious goals, but there is no doubt that the computer technologies available to Japanese companies will be greatly strengthened.

III

A number of factors are at work which may reduce Japanese competitive strength in international markets. Of immediate importance is a possible strengthening of the yen. Japan's expected large current-account surplus will push exchange rates in that direction this year. A further narrowing of interest rate differentials between the United States and Japan would help even more. In the meantime, experiments with joint intervention in the exchange market by the Ministry of Finance and the U.S. Treasury are a welcome development.

In the next few years, Japan's policy of administered low interest rates will be of rapidly diminishing effectiveness. This is not because the Ministry of Finance has been convinced of the virtues of interest rate liberalization. It is mainly because the national bond issues that have financed budget deficits since 1975 are now nearing maturity. This has the effect, first, of creating a continuing very large volume of short-term securities in the secondary market, free of interest rate controls. (The broadening of the secondary market also will make Japan more attractive to foreign investors, which will hasten the internationalization of the yen.) Then, too, the need both to finance the ongoing deficit and to refinance maturing issues will call for a wider and more flexible market in which the issue terms of government bonds will have to take into account basic market forces. The effect of all this will be to liberalize greatly the whole domestic interest rate structure.

In addition to these developments, there are a number of longer-term trends that are working to reduce the competitive advantage enjoyed in export markets by Japan's highly productive industries.

—Long-term economic growth is slowing as the Japanese economy matures. A number of industries such as textiles, clothing, chemicals, nonferrous metals and shipbuilding are weak. Japanese agriculture and the distribution system are notoriously less productive than their American counterparts.

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—The large inflow of workers from the countryside that provided the hands for industrial growth is no longer available.
—Japanese workers are demanding more leisure. Two-day weekends are becoming common and longer vacations are being taken.
—The population is aging, and all the burdens of supporting it have not yet been faced by the government. The process is occurring in Japan a good deal faster than in any other large industrialized country. In France it took 175 years for those over 65 to increase from five percent to twelve percent of the population and in West Germany, 80 years. This same change is occurring in Japan in 40 years. Within a generation or so, Japan may have the highest proportion of people over 65 of any nation in the world.
—The economy is becoming increasingly service-oriented. Like the United States, more than half the employed population is now in service industries.
—Demands for improved housing, public services, roads and medical facilities, plus a rising military expenditure, will all put inflationary strains on the government budget and tend to limit resources for the private sector. Japanese housing now being built, for example, is 20 percent more than a decade ago. A recent survey in *The Economist* describes Japan's infrastructure as "little better than a developing country's."
—Japan is feeling competition from industries that fueled her economy in the past but which now turn out products at lower costs in Korea, Taiwan, Hongkong, Singapore and Malaysia. Pressure from the People's Republic of China will soon be felt.

A final change which will affect Japan's international trade, although not necessarily Japan's competitive strength, lies with the consumer. Until now Japan has remained a substantially closed market more because of buying habits than regulatory protection. But the proclivity to protect Japanese industry from foreign competition and to "buy Japanese" is changing. Coca Cola, McDonald's and IBM are prominent names in Japan. American and European exporters to, and investors in, Japan will find growing acceptance of their products—as the Japanese travel and develop a taste for non-Japanese products and, more important, as more American and European companies have the patience and willingness to take the investment risks of providing products that meet Japanese desires for quality, styling and performance.

The 1980s will see a shift in Japanese buying habits to parallel the earlier shifts in the United States and Europe toward true openness in preference for style, quality, price and performance,

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regardless of the source of the product. In addition to the natural evolution in this direction within Japan, however, much effort and investment of money and time by American and European companies will be required to tap the very large Japanese domestic market.

IV

America is still the world's largest and most productive economy. We have enormous resources in people, natural resources and accumulated capital. We have encouraged the entrepreneurial spirit as evidenced by the many new firms springing up, especially in the field of high technology. A very large part of the technology which Japan uses today was first developed in the United States.

In the electronics industries, Japan has made great advances, but the United States still retains an edge. The United States dominates the world computer market, as it does the semiconductor market, with the exception of the commercial market for the 64K RAM chip. (In addition, IBM for its own use makes more ICs than any other firm in the world, and Western Electric is close behind.) The struggle for the 256K RAM chip market is just starting, and it is by no means clear that Japanese semiconductor manufacturers will dominate it.

There are two recent examples which illustrate how cooperation within industry can further the objective of strengthening American ability to compete in international semiconductor and computer markets:

First, the Semiconductor Industries Association created the Semiconductor Research Consortium. The goal is to increase private-sector support for those university research programs that have the greatest potential for strengthening the U.S. semiconductor technology base. The SRC has about 30 members, whose contributions are based on their integrated-circuit use and/or sales. The director and the board will distribute the Consortium's funds in response to proposals from universities and will initiate new research in areas most needed by U.S. industry. (Incidentally, many electronics companies are also independently funding microelectronic and computer studies in universities, quite apart from the SRC.)

Second, a group of U.S. semiconductor and computer companies under the leadership of Control Data Corporation has established the Microelectronic and Computer Technology Corporation (MCC). There will be a small headquarters located in Austin, Texas, with a full time chief executive officer, retired Admiral Bobby Inman. Each of the participating companies will be part of one or more

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research programs in areas such as computer-aided design, software, packaging and new computer architectures.

The objective is to provide a mechanism for industry to conduct joint long-term research with special attention to areas that have been targeted by the Japanese. The research will be conducted by MCC personnel and results will be available for licensing. Development of this research into competitive products will be carried on outside of the MCC, by the individual participants. This is similar to a limited partnership for R&D in which companies combine to form a vehicle to perform the R&D at arm's length and then license the results to avoid antitrust problems.

Even faced with the tough challenge from Japan, the American electronics industries can compete effectively. A number of American companies have already demonstrated that they can get ahead in the Japanese domestic market. These firms have generally been in Japan a long time, have combined understanding parent-company support with competent Japanese management, and have been patient in waiting for their investments to pay off. A few examples of American electronics companies that have succeeded in Japan for decades are IBM, Texas Instruments, Sperry, Xerox, Burroughs, NCR and Honeywell. These companies have all participated profitably in the Japanese economy, as effective competitors and responsible public citizens.

V

There is a great deal that we can do to further strengthen the competitiveness of American industry and that of the electronics industries in particular.

As a start, U.S. negotiators should maintain firm pressure on Japan to continue the process of opening her markets. As a result of such pressure from the United States and other countries, and in response to the Japanese recognition of the need to support the international trading system, much has been accomplished in recent years.

The easing of Japanese trade barriers in 1982 and 1983, accompanied by Prime Minister Nakasone's admonition to look favorably on imported products, and the accelerated tariff reductions and legislative measures passed by the Diet in the spring of 1983 to ease testing and other import procedures, have gone a long way toward completing the opening of the Japanese market—on paper at least. Japan has the lowest industrial tariffs of leading industrial nations, and instructions have gone out to the Japanese bureaucracy to simplify customs and testing procedures for imports. Some progress

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has been made to increase imports of tobacco products, but more remains to be done to liberalize the sale of imported cigarettes, and to deal with continued protectionism in such products as beef, citrus, leather, aluminum, lumber, soda ash, cosmetics, telecommunications equipment, and others. Also, the decline of administrative guidance impeding imports—a bureaucratic habit in many countries but particularly in Japan—has to be seen and not just talked about. Liberalization progress is still needed in some service industries.

There is also machinery in place to resolve trade disputes. The American Chamber of Commerce in Japan and the Japan-U.S. Trade Study Group have made progress on specific issues, as has the intergovernmental Trade Facilitation Committee. The Japanese Office of Trade Ombudsman in the Prime Minister's office, while needing more enforcement tools, offers importers and investors a direct route to deal with bureaucratic obstruction. American businessmen have to learn how to use the OTO effectively, but the intent of the Japanese to make it an effective mechanism to blunt criticism was at least clearly stated in the Prime Minister's declaration setting up the office. There is a U.S.-Japan Working Group on High Technology, in which trade officials from both countries discuss impediments on both sides of the Pacific to trade in high technology products. And there are two business organizations that have been meeting together since 1961 to discuss and make recommendations to governments on bilateral trade problems—the Japan-U.S. Economic Council in Japan and the Advisory Council on Japan-U.S. Economic Relations in this country—as well as a number of intergovernmental study groups dealing with specific industries.

There remains much that we should do in the United States. We should start with the proposition that exporting is not only important but essential to the economic health of our nation. We have to earn the foreign exchange to pay for a rising volume of petroleum and other imports in the decades ahead. In the expanding world market, Americans are increasing their taste for competitive products from other countries, which means a further step-up in import bills and further pressure on noncompetitive domestic industries. And, while exports are sources of jobs and contribute to domestic prosperity, it should be remembered that imports also create jobs.

VI

Our national experience has been different from that of the "export or die" countries. But in recent years the requirement for imported raw materials has steadily increased as our own once-

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bountiful domestic supplies have diminished. It was the oil shock of 1973 that made us at least associate members of the fraternity of international traders, along with our European and Japanese allies. Thus a trade war, a prospect everyone should fear, becomes not just a danger to the system of free world alliances but a threat to America's economic well-being.

While the focus of this article is on Japan and American-Japanese economic relations, the wider problem threatens the whole open trading system. Japan, seen as an ultra-strong competitor and as a closed market, has triggered most of the protectionist measures now before the Congress. Of these, the proposed "local content" legislation is by far the most dangerous. Strongly backed by the United Auto Workers and aimed at a dramatic reduction of Japanese automobile imports, the passage of this legislation would have disastrous consequences. Other American industries would seize upon the automobile precedent as a basis for insisting on similar protection. The European Community could be counted on to employ the arguments advanced in Congress to support additional restrictive policies—but aimed at American competition. The Japanese would unquestionably insist on compensation or retaliation, with consequent high cost to American farmers and exporting industries. A possibly fatal blow would have been delivered to the GATT.

Beyond the specific dangers of this and other restrictive proposals lies the short-sightedness of unilateral action. With the world shrinking into a tighter and more complex entity, the only effective response to major trading problems must be international consultation and cooperation. Yet the mood of Congress seems blind to this requirement and a few legislators are bent on attempting, unilaterally, to determine what the answer should be to the problems that confront us. To embark on such a course of national action can lead only to the kind of economic anarchy that marked the 1930s.

We have a large body of foreign trade laws enacted to protect threatened industries. Remedies provided in this legislation include duty increases, other import restrictions, countervailing duties to offset subsidies, anti-dumping duties, vigorous enforcement of patents and copyrights, and enforcement of rights under trade agreements. The government has made clear that it will act aggressively to use existing laws and international agreements to protect American industry from unfair trade practices. More can be done to expedite the complaint process. The Administration should continue its efforts to engage members of the GATT in the extension of

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provisions to cover services and investment.

Nothing is more important to American economic health, and that of our national industry, than fiscal policies that encourage saving and investment, and monetary policies that assure long-term, non-inflationary growth. The budgetary deficits that lie ahead ensure an overvalued dollar, with the most harmful consequences for American exports. Furthermore, the massive federal deficit means that industrial demands for credit in an expanding economy must compete with government borrowing, signaling higher interest rates and a return of inflation.

Another subject of increasing interest here in the United States is industrial policy. We have been criticized for the absence of such a policy and the Japanese praised for having one. The complexity and diversity of our political system suggests the impossibility of selecting target industries to encourage on a national basis. Some modest action to this end may be useful if undertaken at the state level; indeed, this is being tried with some success. There are many opportunities within the federal R&D budget to help specific industries, and funds to help industry retrain displaced workers can be of some use. The best industrial policy, however, is to let the market decide which industries should expand and which should contract.

Research and development now gets 5.6 percent of the federal budget, the largest part going to the Department of Defense, National Institute of Health, the National Aeronautics and Space Administration, the Department of Energy (largely nuclear-related R&D) and the National Science Foundation. The Administration's proposals to increase funding to universities through the NSF is a good sign, as that budget has shown no real growth over the past four years. There are suggestions that the federal government should set long-range goals and strategies for the nation's future and then target R&D for all agencies to accomplish these objectives in broad terms, rather than negotiating R&D on an annual basis through countless line items in the budget. The political difficulties in this proposal are evident, but it deserves careful consideration nonetheless.

I have tried to make clear that, while the Japanese are strong and determined competitors, they have their weaknesses and their society is undergoing rapid and unpredictable change. Japanese businessmen are not ten feet tall. They are not invincible, as some superficial observers believe.

VII

Japan has become an American obsession, attracting and repelling. It is neither the perfect model of the future nor the perfect

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villain of the present. To cast Japan as a principal cause of our domestic and international trading problems is to do ourselves and Japan a profound disservice.

The facts do not support this charge. But facts have been known to be ignored when fear and passion ride high. Fear can cause us to lose sight of what we, Americans, have gained from modern Japan. Japan provides a major and growing market for American products. Japan has forced us to think in new ways about management techniques, about relations with the work force, and about producing products of high quality.

We cannot serve our own interests worse than to designate Japan as a scapegoat. (We can be sure that Western Europe will be even more ready to cast the Japanese in that role.) To do so not only risks the loss of an irreplaceable Asian ally; self-deception of this sort would make it infinitely more difficult to carry out successfully the basic adjustments we must make in our own economy.

Foreign competition merely highlights the economic changes now in process and that we must face. Indeed we should feel indebted to the Japanese for their contribution in turning our minds to what we should in any event be doing to make America a more productive, efficient and humane society.

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Eric Rouleau

THE FUTURE OF THE PLO

The beginning of the end of Yassir Arafat? The Palestine Liberation Front on the point of irrevocable disintegration? The twilight of the Palestinian movement? No sooner had a mutiny been declared in a Fatah barracks in Lebanon's Bekaa Valley last May than the international press was full of such questions—legitimate, to be sure, but premature to say the least. And the political analysts who hastened to reply in the affirmative often did so without sufficiently taking into account the complexity of the crisis or the roles of the various protagonists—behind the scenes as well as center stage—their stated objectives, ulterior motives and miscalculations.

The dissidence within Fatah implicates, directly or indirectly, and to varying degrees, the Arab states (particularly Syria and Libya), Israel, the United States, the U.S.S.R., and other powers outside the region. Moreover, the international community is concerned by this seemingly internal struggle, for on its outcome hangs not only the solution or persistence of the Palestinian problem but, beyond that, the security and stability of a region crucial to the West.

This is not to minimize the importance of the local factors which set off the powder keg, even if it is true that the disagreement which actually triggered the rebellion—Yassir Arafat's appointment to senior command posts of two officers contested by their peers—seems trivial. The appointment was perhaps untimely and ill advised, but it lay well within the powers of the PLO president, and was hardly the first time accusations of unfairness or arbitrariness could have been made. The Fedayeen chief in fact has often been reproached, by friends and adversaries alike, for the "personal power" he wields within the organization, but in the past this never led to confrontations. In fact, it was implicitly understood that without such power he would have been condemned to paralysis by the very dynamics of the movement.

Indeed, the PLO is not a single unified body but a coalition grouping eight Fedayeen organizations running the ideological and political gamut from right to extreme left, from Islamic to Marxist-Leninist. Certain of these organizations maintain close ties with, and indeed serve as the instruments of, Arab governments often at

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loggerheads with one another. Counteracting these centrifugal factors are at least three that contribute to maintaining the unity, if not the cohesion, of the Fedayeen's central body: the determination to establish a Palestinian state, the charismatic personality of Yassir Arafat, and the relatively democratic institutions governing the PLO.

Primary among these is the PLO's parliament, the Palestine National Council (PNC), where all the various currents are represented at near-yearly sessions marked by heated and often stormy debates. No rubber stamp organization, the PNC is called upon to scrutinize carefully, then approve or reject, the financial and political reports submitted to it; determine the fundamental policies and programs of the movement; elect the organization's leading bodies which are to implement these policies between sessions; and approve the composition of the PLO Executive Committee, which functions as a government, in keeping with the distribution of seats agreed to by the eight constituent groups. At least a third of the Executive Committee Members are declared adversaries of Yassir Arafat and do not hesitate, as at the last PNC meeting in Algiers in February 1983, to take him violently to task.

But the problem is that the system, however democratic, is not adapted to a collectivity which has neither territory nor a state, and which is not in a position to give its leader all the means he would need to implement its policy. Yassir Arafat, at once the reflection and the result of the disparate or contradictory tendencies, has thus given himself a margin of personal maneuver enabling him to survive in a regional and international environment which is either outright hostile or torn by centrifugal forces. Nonetheless, the system does have the advantage of providing a forum and safety valve for opponents who, in exchange, show a certain tolerance for the personal initiatives of the PLO president.

The fact that the mutiny originated not with one of the "extremist" organizations but within Fatah, the core and mainstream of the PLO, made it both more serious (Fatah represents some 80 percent of the Fedayeen and probably a like percentage of the Palestinian population at large) and more perplexing, since the organization had always shied away from ideology. Indeed, the dissidence would have been incomprehensible without the profound changes wrought by Israel's invasion of Lebanon in June 1982. Yassir Arafat's boastful claim that the war had ended with a "major victory" for the Palestinian resistance gave rise to a profound malaise in Palestinian ranks, even among his own supporters.

In a way, he wasn't entirely wrong. While a mere six days had

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sufficed for the Israelis to decimate the Arab armies in June 1967 and three weeks had done the job in October 1973, the war in Lebanon—the first where Palestinians and Israelis fought face to face—lasted three months despite the fact that Israeli Defense Minister Ariel Sharon had unleashed forces superior in both numbers and quality to those which had participated in the two previous conflicts.

The Palestinian defenders of Beirut held out more than 70 days under the relentless pounding of Israeli heavy artillery and aviation. Their withdrawal from the Lebanese capital bore little resemblance to a capitulation: their machine guns slung over their shoulders, their hands raised in "V for victory" salutes, the Fedayeen left the city amid volleys of rifle fire and tumultuous acclamations from the crowd. Yassir Arafat boarded a luxury liner and, escorted by warships, set sail for Athens where he was accorded a welcome worthy of a head of state.

II

Like Gamal Abdel Nasser before him, the PLO chief had partially succeeded in transforming a military defeat into a political victory. It is true that the excessive brutality of the Israeli forces contributed in no small way to that end. The mass media, and particularly television, coverage of the war roused pity and indignation among Westerners concerning the fate of the Palestinians, thus helping to legitimate the very cause that was defended, for better or for worse, by the PLO. On more than one occasion, I watched Yassir Arafat delightedly pore over the opinion polls on the subject in the Western press: "I'd be satisfied if Western opinion becomes aware of the Palestinian reality," he repeated.

But the reality of world opinion paled before a far starker reality, which the Palestinian people, nursing terrible wounds, perceived far more intensely. The military commanders of the PLO, in particular, were well placed to gauge the full extent of the defeat. In private, they expressed bitter resentment over the political leaders' failure to anticipate that the Israeli army would wage all-out war and push their offensive to Beirut, and this despite clear information received from certain Western counterintelligence services (among other sources) on which they could have based a coherent defense strategy. Others pointed out that the war had been lost in advance in any event, thanks to Yassir Arafat and his top military commander, Abu Jihad, who had committed the fundamental error of transforming the Fedayeen from a guerrilla organization—invin-

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cible because it was elusive—into a regular army bogged down with heavy weaponry and structures that made it an easy target for the Israeli army, reputed to be one of the most efficient in the world.

The consequences of the debacle nourished the malaise among the military chiefs, particularly of Fatah, which constituted the backbone of the Palestinian forces. In abandoning Beirut, the Resistance lost its "Hanoi," its sanctuary as well as its operational base. The dispersion of the Fedayeen among nine Arab countries, some of them thousands of kilometers from Israel, meant that the PLO in practice had renounced the armed struggle, since those forces remaining in eastern and northern Lebanon would sooner or later be obliged to evacuate the territory.

Beyond the recognition of this failure, on which there was a consensus, opinions diverged. A large number of the Palestinian officers believed that the defeat had not eliminated the political role of the PLO; this was also the view held by virtually all the political leaders, both supporters and opponents of Arafat. According to this line, the defeat did not substantially change the military situation, since even before the war in Lebanon the military dimension of the Palestinian resistance against Israel was insignificant, even symbolic. In the entire year preceding the invasion, the Fedayeen had fired mortars into Galilee (in northern Israel) only once. And ever since the civil war in Lebanon had broken out eight years earlier, the Palestinian forces had been tied down in battles against the Christian militias and their allies; their antiaircraft guns and rockets had been turned against Israeli targets only in response to the bombing missions against Palestinian military targets or refugee camps. The weapons were stocked not for an offensive against the Zionist state, but for the eventuality of an Israeli invasion or a resumption of the civil war.

But this was not the position of a small number of senior officers, in whom Colonel Qaddafi's appeal, launched from the safety of Tripoli, inviting the Palestinians to "commit suicide rather than capitulate," struck a responsive chord. While not taking the Libyan president quite at his word, they vehemently opposed any withdrawal from Beirut on the grounds that the Israeli army would never risk besieging the city in view of the heavy losses it would have to incur. The massacre of the Palestinian refugees in the Sabra and Shatila camps scarcely three weeks after the Fedayeen's departure from Beirut added weight to their contention that the slaughter never would have occurred had Arafat not believed the American guarantees for the security of civilians and given the order to evacuate.

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Nonetheless, the war in Lebanon was not the sole cause of last May's uprising. What it did was provide a catalyst for numerous long-standing grievances held by men who in any event were seeking to gain control of Fatah. The key dissident, Abu Saleh, Marxist-oriented and pro-Soviet, had long been at odds with the other members of Fatah's central committee. The same held true for Ahmed Kedri, likewise a member of Fatah's ruling body, who is a rightist. Colonel Khaled al-Oumla, reputed to be the group's ideologist, espouses a Marxism-Leninism he claims is stricter than that of either the U.S.S.R. or China.

The military chief of the rebels, Colonel Abu Musa, who has explained himself volubly in the press, is more typical of the dissenting officers. A 56-year-old native of Jerusalem, he graduated from the British military academy of Sandhurst, undergoing additional training in various Eastern bloc countries. Generally respected for his military qualities and abilities, physical courage and discipline, he distinguished himself in the 1970 conflict pitting the Fedayeen against the Jordanian army, in the civil war in Lebanon (1975–76), and especially during the siege of West Beirut during the summer of 1982, when he directed the city's defense against the Israeli forces. Appointed deputy chief of military operations after the war, he was also head of the Yarmuk brigade when the mutiny erupted last spring. His involvement did not fail to astonish even those who knew him well, for he was thought to be "apolitical," by reason of the somewhat utopian ideas he expressed on occasion and especially the exemplary loyalty he displayed toward the Fatah leadership.

Although coming from very different political horizons, from the right to the Marxist left, Fatah's dissident officers did have a number of things in common: almost all had come from the Jordanian army, which they deserted to join the Fedayeen during the 1970 debacle; their ultra-nationalism had led them to contest the Palestine National Council's June 1974 decision to accept in principle a Palestinian state alongside and not in place of Israel; they all opposed the PLO's cooperation with the conservative Arab states, especially Jordan and Saudi Arabia, and they all favored a strategic alliance with the Soviet Union.

Three months before the mutiny broke out, Abu Musa gave clear and precise expression to opinions he said were his own. During a closed door session of Fatah's Revolutionary Council held in Aden on January 27, 1983, he launched into a veritable diatribe against Fatah policy and, without naming him, against Yassir Arafat himself. The text which formed the basis of his indictment—which in fact had been drafted collectively by the dissident group and

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which was circulated after the mutiny was launched—indicated that the rebels were violently opposed to any compromise with Israel and that their objective was "to liberate all Palestine" in accordance with the PLO charter, which in their view had been violated by a whole series of PNC resolutions and the diplomacy of Yassir Arafat. It stated their opposition to the Reagan Plan, the Fez Plan adopted by the Arab heads of state in September 1982, negotiations with King Hussein, and the contacts established with Egypt and with Israeli pacifists. It proposed the resumption of armed struggle—"the sole road to liberation"—in Lebanon, the Israeli-occupied Golan Heights, and the West Bank (the text specified that the struggle would be launched from Jordanian territory after the overthrow of the Hashemite regime) and the implementation of operations aimed at "striking and liquidating" American interests in the Middle East and "ending the U.S. hegemony in the region."

Abu Musa's speech, according to witnesses, was greeted with polite smiles and a glacial silence by the other members of the Revolutionary Council, who were far from imagining that the "revolutionary romanticism" they found so totally removed from reality was in fact shared by an underground group of which he was spokesman, or that his speech had been intended as a last, serious warning to Yassir Arafat before they proceeded with an armed uprising. The secret had been well kept: it later transpired that the dissident colonels had established contacts with the Syrian and Libyan authorities immediately after the withdrawal from Beirut in August 1982; one of them had been personally received by Colonel Qaddafi. As of November, they were ready for action, awaiting only the "green light" from Damascus and Tripoli.

Information on the matter obtained later by Fatah Intelligence was dismissed by the organization's leaders, accustomed to dissent, factionalism and the formation of secret groups and alliances within an organization which, no less than the PLO as a whole, encompasses a wide spectrum of opinion from far right to far left. More important, they were skeptical concerning reports of cooperation with Syria, judging that so "unnatural" an alliance could never get off the ground. Indeed, most of the plotters, starting with Abu Musa, had fought against the Syrian army in Lebanon in 1975–76. Even more, their "maximalist" objectives were totally at odds with the policy of President Assad. Not only had the latter personally approved the Fez Plan, but his government, for all its rhetoric, had been seeking a peaceful compromise with Israel on the basis of U.N. Security Council Resolutions 242 and 338 ever since the October 1973 war: it had agreed in principle immediately following the war to participate in the Geneva peace conference, had scru-

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pulously applied the disengagement agreement concluded in 1974 through the mediation of Henry Kissinger, and had observed the cease-fire on the Golan to the point that not a single incident had occurred since it took effect. In view of the record, the chances of President Assad's giving the Fatah mutineers free rein to carry out military operations from his territory against Israel and the Golan, Lebanon, or anywhere else would be slim indeed.

III

Nonetheless, from all indications the Fatah rebels stand firm in their conviction that Damascus will help them "liberate Palestine" through armed struggle, and Yassir Arafat appears to have underestimated the naïveté of his adversaries. He also seems to have underestimated the depth of President Assad's antipathy toward him. It is, of course, common knowledge that the two men have detested each other for years, starting in 1966 when Hafez al-Assad, at the time defense minister, had Yassir Arafat, then an obscure underground militant of Fatah, arrested for a crime he hadn't committed.

Yassir Arafat has taken very much to heart certain of Assad's actions: as defense minister in 1970, he countermanded his government's orders and prevented the Syrian air force from coming to the rescue of the Fedayeen, who were backed into a corner and engaged in a life and death struggle against the Jordanian army. In the early stages of the Lebanese civil war, in 1975–76, Mr. Assad, who in the meantime had seized power in Damascus, instructed his army to lend military support to the Christian militias against the PLO and its Lebanese allies—a support which extended to participating alongside the Christian fighters in the obliteration of the Palestinian refugee camp, Tal Zaatar, at the cost of thousands of Palestinian lives. And, finally, the military balance in Lebanon, which President Assad took pains to maintain until the withdrawal of his forces in the summer of 1982, in practice favored the Christian militias of Bashir Gemayel.

President Assad's behavior was undoubtedly dictated by reasons of state rather than a particular hostility toward the Palestinians. In his view, Yassir Arafat and his allies on the Lebanese left were "irresponsible," given the international and regional balance of power. And in a way, he was right, since Israel, the United States, and more generally Western Europe, never would have allowed the defeat of the conservative Christian formations and the coming to

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power in Beirut of the Lebanese left, the ally of the PLO.

But the essential reason lies elsewhere: one of the main objectives of President Assad's strategy has been and continues to be the control of Lebanon and Yassir Arafat's organization, two trump cards that would immeasurably strengthen Syria's hand in any comprehensive negotiations on the future of the Middle East. But Fatah, distrusting all Arab regimes, was founded some quarter century ago to avoid just such tutelage, and Palestinian "autonomy of the power of decision" remains absolutely central to its policy. The fundamental incompatibility between Assad's and Arafat's positions has not ceased to poison their relations and nourish Syrian-Palestinian quarrels and confrontations for close to a decade.

Last May, on the eve of the mutiny within Fatah, a leading member of Syria's ruling Baath Party explained the disagreement to me in the following terms: "Yassir Arafat fancies that his cause is exclusively Palestinian and that our role, as Arabs, consists of supporting him blindly. But Palestine is our raison d'être as well, and we have the right—especially after the heavy sacrifices we have made for the cause—to discuss, contest, and even to oppose this or that action of the PLO . . . ." The Baath leader went on to explain that the PLO, as a "revolutionary organization," was obliged to remain intransigent toward Israel and to reject all compromises such as Resolution 242 or the Fez Plan, which the Syrian government had approved for tactical reasons. What was not explicitly admitted was that such negativism would inevitably exclude the Fedayeen organization from the international scene to the benefit of Syria, which would then take it upon itself to negotiate in its stead. Given the Baath party's pan-Arab ideology lumping Palestinians, Syrians and other Arabs into one "nation," such an eventuality in Damascus' eyes appeared entirely logical and normal.

It is this hidden agenda that accounts for the Baath government's hostility to all Yassir Arafat's diplomatic initiatives and conciliatory gestures. All his contacts, secret and otherwise, with successive American Administrations and with the Israeli peace movement (these last carried out mainly through Issam Sartawi), as well as his attempts to reach a basis for compromise with the Jewish state, have aroused suspicion and anger in Damascus. During the 1982 war in Lebanon, to go back no further, at least three of Arafat's initiatives had sorely irritated the Syrian president. In July, Arafat had supported two texts—the first jointly prepared by three internationally prominent Jews, Nahum Goldmann, Philip Klutznick and Pierre Mendès-France, and the second in a draft resolution submitted to

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the U.N. Security Council by France and Egypt—calling for the mutual recognition of the Israelis and Palestinians as a prelude to a peaceful settlement. In addition, he had made a commitment in writing to the American congressman Paul McCloskey to subscribe to "all the United Nations resolutions concerning Palestine," which clearly signified acceptance of the partition of the territory into two states, one Jewish and the other Arab, in keeping with the text voted by the U.N. General Assembly in November 1947.

Finally, the PLO president had launched an appeal from Beirut under siege for the convocation of an international peace conference, thus demonstrating, as Egypt's President Anwar Sadat had done during the heat of the 1973 October War, his readiness to negotiate peace with Israel. President Assad's extreme displeasure at these moves expressed itself in his failure to provide Fatah with the slightest aid during the Israeli onslaught (to the point of confiscating the Soviet arms shipments being sent to the Palestinian organization) and his refusal to so much as answer Yassir Arafat's telephone calls.

The Begin government's action in Lebanon was a real boon for the Syrians. By driving the Palestinians from Beirut and destroying their leadership structures in Lebanon, the Israelis in practice made the PLO dependent on the good will of the Baathist regime, which wasted no time in making clear its intentions. The Palestinian fighters were disarmed immediately upon their arrival on Syrian soil and, before being sequestered in camps far from the urban centers, were informed by President Assad that "Damascus is not and never will be Beirut," that there would be no "state within a state" in Syria, and that the Fedayeen would not be permitted to carry arms within the country, which in any event would be unnecessary since their security was solely the responsibility of the Syrian forces.

President Assad refused to receive Yassir Arafat, who had not sufficiently gauged the Syrian chief of state's determination and who had perhaps imagined that through pressure or ruse he could regain the freedom of action he had lost first in Jordan and then in Lebanon. Whatever his calculations, he continued to act as if the "second Palestinian republic in exile" had not died on August 31, the day of his "triumphal departure" from Beirut. Throughout the fall of 1982 and the following spring, he increased direct and indirect contacts with foreign capitals, including Paris and Washington, to sound out whether the "mutual recognition" between Israel and the PLO that he intended to submit to the Palestine National Council for approval would find support among the West-

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ern powers. To this end, he initiated a discreet dialogue with Egypt, dispatched emissaries to the United States, officially received in Tunis leaders of the Israeli peace movement (with whom he had himself photographed), declared that the Reagan Plan included "positive aspects," and, as of October 1982, opened negotiations with King Hussein concerning the creation of a confederation between Jordan and an eventual Palestinian state in the West Bank and Gaza.

Yassir Arafat did not even deign to acknowledge the more or less veiled warnings and threats emanating from Damascus. In mid-October, shortly after the first round of talks between the Jordanian monarch and the PLO leader, the Syrian Information Minister, Ahmed Iskander, declared to *The New York Times* that Arafat did not represent the PLO as a whole. The following month, Abu Nidal—Arafat's mortal enemy who had been carrying out assassinations from his sanctuary in Baghdad for the past decade and whose men assassinated Issam Sartawi in Portugal on April 10, 1983—was authorized to open offices in Damascus. In December, Abu Saleh—the political leader of the future rebellion within Fatah—declared to UPI that the Palestinians had "lost confidence in Arafat" because he had "strayed from the Palestinian consensus" by negotiating with King Hussein. Then in January came Abu Musa's indictment of Arafat's policy. Finally, on February 7, three Syrian-controlled groups belonging to the PLO held a meeting in Damascus—and made no secret of it—to examine the possibility of a split within the umbrella organization.

IV

Yassir Arafat had reached a dead end. Militarily finished in Lebanon (which he knew full well even though he didn't admit it publicly), he had been unable to make effective use of the increased sympathy toward the Palestinian cause in world opinion. All his hopes of starting up a peace process under conditions favorable to the Palestinians had turned out to be illusory. His conciliatory gestures and the appeal he had made for the convocation of a peace conference had been greeted with indifference. And for good reason. He was doomed to fail because Israel—the Labor opposition no less than the Likud Party now in power—categorically rejects any possibility of negotiation with the PLO, and has clearly stated that this position would not change even if the "terrorist organization" were to recognize the Jewish state's right to exist. At the same time, the Reagan Administration has ruled out the possibility of an

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international conference that would include the U.S.S.R., even though such a conference in practice would mean that both parties to the conflict recognize each other and accept the principle of a negotiated settlement.

The United States, the only power with any leverage over Israel, has remained faithful to the "Kissinger clause" (the former Secretary of State's commitment to Israel at the time of the September 1975 Israeli-Egyptian disengagement agreement), whereby Washington would engage in no dialogue with the PLO without the PLO's prior recognition of Resolution 242 and Israel's right to exist. Yassir Arafat, loath to give up what he considers one of his most valuable bargaining chips, has tried through various emissaries to persuade the American Administration to change its attitude. Among other things, he proposed recognizing the state of Israel on condition that Israel recognize the Palestinians' right to their own state in the West Bank and Gaza. France, though supporting such a compromise, told the PLO president that it was not in a position to bring the other West European countries around to its viewpoint, much less influence the American attitude.

So on the eve of the PNC meeting last February, at which Yassir Arafat had hoped to announce a diplomatic breakthrough which would strengthen the "moderate" wing of the PLO and partially compensate for the defeat in Lebanon, the impasse was total. During an interview he granted me at the time, he explained that no one would follow him if he proposed, as Washington demanded, unilateral and unconditional recognition of Israel, especially since such an initiative would bring no tangible result. As Faruk Kaddoumi, the head of PLO diplomacy, added ironically, the "price for the honor of having lunch with Mr. George Shultz" was simply "too high." And, in fact, State Department officials had emphasized to the Arab emissaries that the "dialogue" that would be initiated with the PLO if Washington's conditions were met carried no guarantees as to results, since the United States had neither the capability nor the intention of compelling Israel to reverse its policy in the occupied territories. Recent experience, coupled with the "strategic alliance" concluded between Israel and the United States, did not leave the Palestinians any room to doubt the frankness of the American officials.

In light of the foregoing, Arafat was faced with four alternatives, none of which in his eyes would lead to a solution to the Palestine problem:

—The first, which consisted of embracing the intransigent positions of the Rejectionist Front (refusal of any compromise, including

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the Fez Plan, and exclusive pursuit of a hypothetical armed struggle), would aggravate the Palestinian movement's isolation on the international scene and, in practice, give Syria and its allies the exclusive right to negotiate instead of the PLO.

—At the other end of the scale, the "Sadat option" of recognizing the Jewish state without any quid pro quo would lead to an even greater catastrophe. Israeli Prime Minister Begin, for whom the West Bank and Gaza are endowed with an emotional value almost entirely lacking for the Sinai, would never have for Arafat the "magnanimity" he showed the Egyptian president, and would not yield an inch. Although the PLO leader conceded in private that this option would increase sympathy for the Palestinian cause in world opinion and earn kind words from the United States and Europe concerning his "courage," it would assuredly result in the fragmentation of the PLO, a split within Fatah, and his own denunciation as a traitor.

—The third alternative, to accept, as is, the Reagan Plan for an Israeli-Jordanian settlement, would have the same negative consequences as the preceding option with none of its advantages, however meagre. Insofar as the American President not only excludes the PLO from the peace process but rules out, a priori, the creation of an eventual Palestinian state, the PLO's acceptance of the plan would be tantamount to scuttling both its role and its raison d'être. And the distrust of Israel and Jordan is such that no private assurances concerning the "dynamic" of eventual negotiations would suffice to rally the Palestinians to the plan.

—The last possibility, pursuing the PLO's habitual policy of prevarication and ambiguous overtures, would be sterile and even dangerous in that it would prolong the organization's paralysis while Israel continued to forge ahead with its colonization of the occupied territories.

V

After months of hesitation which forced him to put off convening the PNC a number of times between October 1982 and February 1983, Arafat finally settled on the fourth option. He apparently considered that it involved fewer disadvantages and risks than the other three. Hadn't he managed for some 15 years to preserve his organization's cohesion and extend its prestige internationally by cultivating precisely this ambiguity? And hadn't he won considerable advantages from all the Arab regimes by playing one off against the other? Why couldn't he do the same with the U.S.S.R. and the

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United States, while awaiting a more favorable situation?

As one of Arafat's close associates explained to a group of PNC members in February, what was needed was to gain time. Given the instability of a number of Arab regimes, one of them was bound to fall, which would alter the balance of power. In the meantime, he went on, the Palestinians had to take into account the U.S. hegemony in the Middle East and extend or enlarge their channels of communication with the pro-American Arab states, Egypt as well as Jordan and Saudi Arabia, while preserving their ties to the socialist camp and its allies in the region. It was this strategy of "movement within immobilism," as it was called with a straight face, that gained the day at the 12th Palestine National Council.

The conference, humorously dubbed "the conference of the yes-no," was finally held in Algiers from February 14–22 of this year. Addressing the assembly during a closed session, Arafat declared: "It's true that we are being offered nothing of value, but we can't afford to say no to everything. We can't say yes to everything either. So we have to learn to say 'yes, but', and 'no, but' . . . ." The resolutions adopted by the PNC were in keeping with the Palestinian leader's wishes. The Reagan Plan was not formally rejected, but deemed "inadequate as a valid basis for a fair and lasting settlement." The Brezhnev Plan, providing for the mutual recognition of Israel and the future Palestinian state, was "supported" but not adopted. Egypt was invited to "distance itself" from the Camp David Accords but not to denounce them, thus allowing the continuation of the dialogue with Cairo. The contacts with all Jewish "progressive and democratic forces" were to be pursued, and no distinction was made between Zionist and anti-Zionist, despite the importance of such a distinction for a large part of the assembly, thus enabling Arafat to meet whatever Israelis he wished.

Finally, the PNC approved the resumption of negotiations with King Hussein concerning the creation of a Jordanian-Palestinian confederation, a nod to President Reagan, but with two sine qua non conditions: the PLO had to be accepted as the sole legitimate representative of the Palestinian people, and the Palestinians had to be able to exercise their right to self determination, including the right to have a sovereign state. Last but not least, the "strategic alliance" with Syria was to be consolidated, but at the same time good relations were to be cultivated with all other Arab countries, whatever the regime.

At the closing session of the conference, Yassir Arafat was radiant, effusively hugging and congratulating friends and enemies alike. He thought he had reached his main objectives. He had preserved and consolidated the unity, however factitious, of the PLO; he had

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asked for the assembly's confirmation of his reelection as head of the PLO by the Executive Committee (an additional insurance policy not required under PLO by-laws, but which subsequent events proved to have been a wise move), and the PNC had done so unanimously. And, especially, the very ambiguity of the resolutions gave him the margin for maneuver he needed to pursue his own diplomacy according to his personal interpretation of the texts. In this regard, Nayef Hawatmeh, secretary general of the Democratic Front for the Liberation of Palestine, remarked jokingly to Arafat in my presence: "We propose, but it's you who dispose." The truth underlying the teasing words was soon dramatically illustrated.

Immediately after the conference, the PLO president flew to Amman to resume his negotiations behind closed doors with King Hussein, who ended by signing the protocol agreement drafted jointly and amended by Yassir Arafat in his own hand. Determined to keep a free rein, Arafat had been careful not to inform the other Palestinian leaders, including his closest companions in the Fatah leadership, of the substance of the document. And indeed the text contained at least three major violations of the PNC decisions, none of which could have been swallowed: it did not designate the PLO as a negotiating party in eventual talks with Israel; it did not recognize the Palestinian people's right to set up their own sovereign state before joining up with Jordan; and especially—and this on the insistence of King Hussein—it specifically mentioned only the Reagan Plan among the "various projects" which might lead to a settlement.

But at the last minute, Arafat prudently refused to countersign or even initial the protocol and flew to Kuwait to obtain the prior approval of the Palestinian leadership. For the first time in the history of the movement, Yassir Arafat was repudiated first by the PLO Executive Committee and then by the whole of the Central Committee of Fatah, his own organization. Despite his pleading and threats to resign, none of his comrades was in a position to ratify such "tactical" choices. On April 10, King Hussein, who in the meantime had received the Executive Committee's counterproposals for "amending" the protocol agreement, considering his confidence betrayed, officially renounced pursuing any negotiations to implement the Reagan Plan.

VI

Despite his isolation and humiliation, Yassir Arafat did not give up. Nor was he deterred by the obvious warning intended by the assassination on April 10, several hours before negotiations with Jordan were officially broken off, of Issam Sartawi, a leading

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Palestinian peace advocate and Arafat's main conduit to Israeli figures. He immediately dispatched to Washington Ahmed Abu Settah, a member of the Executive Committee whom he considers a kind of spiritual father, to try to get the Reagan Administration to soften its position by at least recognizing the Palestinian people's "right to self-determination." At the same time, he was behind the Algerian "initiative" of the latter part of April, when President Chadli Benjedid's special adviser, Lakhdar Brahimi, traveled to Syria, Jordan and Saudi Arabia trying to rally support for the principle of a referendum in the occupied territories. Under this proposal, the Palestinians would be asked to choose between three options: annexation of the occupied territories by Israel, incorporation into Jordan, or the establishment of an independent state in the West Bank and Gaza. Both initiatives failed: Mr. Brahimi ran up against the categorical rejection of Syria, and Mr. Abu Setta returned from Washington with empty hands.

Meanwhile, Syria's patience had run out. "Too much is too much," Mr. Mohamed Heydar, a member of the ruling Baath's leadership, told me in Damascus at the end of April. According to Mr. Heydar, Yassir Arafat was a man consumed by ambition, whose sole aim was to become president of a mini-state at the expense of the interests of the Palestinians and the Arab nation. The Syrians had been "shocked" by the choice of Algiers rather than Damascus for the PNC meeting, by the resolutions adopted there, by the PLO president's "flirtation" with their Jordanian, Iraqi and Egyptian adversaries and more generally with the "reactionary Arabs" (Saudi Arabia and the other Gulf states). Furthermore, he added, it was Syria's conviction that Yassir Arafat was not only isolated within the PLO but also discredited in the eyes of the Palestinian people at large.

And there is no doubt that Palestinian opinion was in a state of profound disarray. Massacred, decimated and hounded in Lebanon, faced with a highly uncertain future in most of the Arab countries and in the occupied territories, where "creeping annexation" was intensifying and accelerating, the Palestinians had placed exaggerated hopes in the PNC meeting.

The results of that meeting were perplexing for them. There was no critical analysis of the events in Lebanon the previous summer or the dramatic phase that followed. The PLO leadership was renewed as it was, as if nothing had happened. The final resolutions, the product of skillful balancing and carefully worked-out ambiguities, where things were implied rather than stated, were simply beyond them, as was the multi-faceted diplomacy of Yassir Arafat.

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How to explain that Arafat had not formulated the slightest criticism of the Reagan Plan during his many speeches and interventions before the PNC, or that he had tried to slip into a peace process that had Washington's blessing, and in the company of King Hussein at that? It seems apparent that the PLO president had underestimated the virulence of anti-American sentiment in a population which over the years had ended by seeing the United States not merely an ally of the Israeli "hawks," but as their accomplice.

So President Assad, convinced that the time was ripe for striking his intractable adversary, gave the Fatah dissidents the green light they were waiting for. And Arafat unwittingly gave them a pretext by naming to top command posts in Lebanon two officers whose main qualifications appeared to be their loyalty to him. At the same time, a scenario aimed at demonstrating, a posteriori, the Syrian president's innocence of any involvement in Palestinian affairs was set up: on April 30, the secretary general of the Lebanese Communist Party, George Hawi (who was not party to the true aim of his mission), visited Yassir Arafat in Tunis to inform him that President Assad was prepared to receive him to settle their differences amicably. The PLO president, initially surprised and suspicious, ended by accepting the invitation, dismissing the opinion of Abu Iyad, head of Palestinian Intelligence, that it was a trap. On May 3, then, President Assad received Yassir Arafat and other PLO leaders with much fanfare and extensive press coverage, and it was agreed that joint committees be set up to do away with the causes of the Syrian-Palestinian dispute. Three days later, a section of the Yarmuk brigade under the leadership of Colonel Abu Musa rose up in Lebanon's Bekaa Valley. And while arms and supplies from Syria and Libya poured in to the mutineers, protected by expeditionary forces from Damascus, the Baathist republic declared its "neutrality" in the conflict.

VII

President Assad had been secure in his conviction that his control over the Fedayeen of the Bekaa constituted the winning card: in his hands lay the decision of whether or not the Fedayeen could wage an armed struggle. Deprived of the military option, the PLO would be reduced to a political organization whose leaders, scattered about the four corners of the Arab world, would be condemned to powerlessness. But the Syrian chief of state had misjudged his hand. He had counted on the fact that mutiny would spread like wildfire through the Palestinian movement; in fact, it remained confined to the Bekaa Valley and at the end of August

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counted only several hundred fighters out of the 20,000 Fedayeen of the PLO. Even more decisive was his failure to anticipate the virtually unanimous surge of support in favor of Yassir Arafat from the Palestinian people.

This phenomenon can be explained by several factors. External threats, notably from Syria, whose past actions had left bad memories, triggered a nationalist reflex which proved stronger than the myriad questions, disappointments and criticisms regarding Arafat's policy. The PLO president's expulsion from Damascus last June was taken as a collective humiliation. The crisis revealed that Arafat's charisma has remained intact. "You can't drive out a symbol," a Fedayeen, albeit a supporter of Abu Musa, conceded to a Western journalist. And the poet Mahmud Darwish had earlier written: "He enjoys our full confidence even when we criticize him . . . he is our leader and the symbol of our contemporary history . . . . he dwells in our dreams and our hearts." Above all, the Palestinians demonstrated their will for unity, since in their eyes the PLO, for all its errors, weaknesses and failures, remains the sole instrument with a chance of one day satisfying their national aspirations. Within this perspective, it is not surprising that a poll conducted this July in the occupied territories, with the approval of the Israeli military authorities, found that 92 percent of the Palestinians supported Arafat as supreme leader of the Palestinian movement against the Fatah dissidents and their Syrian-Libyan allies.

Which is not to say that Yassir Arafat can rest comfortably. It is true that he has concentrated most of the loyalist Fedayeen in northern Lebanon, particularly in Tripoli, and that he can count to a certain extent on the support of the generally pro-Palestinian local population. As PLO president, he also benefits from the sympathy of many foreign governments—both in the West and elsewhere—which for all their reservations prefer him to his adversaries. But he has had ample occasion to ponder the limitations or ineffectiveness of these sympathies. The first disappointment, though predictable enough, was that the Arab states sat back and watched, either with sympathy or with glee, the crisis of the PLO. Those who hoped for its weakening or destruction simply waited, as they had done during the Lebanese war the previous summer. The others, notably Saudi Arabia, Algeria and Kuwait, confined themselves to timid and futile mediation attempts.

The second disappointment, less expected, was that the U.S.S.R., after addressing three messages of support to the PLO president, suddenly was heard from no more. Yuri Andropov undoubtedly had not appreciated Arafat's negotiations with King Hussein or his

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allusions to the "positive aspects" of the Reagan Plan, but he had even more reason to be wary of the Fatah dissidents, whose Marxist "leftism" was seen in Moscow as an "adventurism" more dangerous than Arafat's pragmatism, especially since the latter was surrounded by men anxious to preserve and develop at all costs the "strategic alliance" between the PLO and the U.S.S.R.

There is no question that up until the last-minute cancellation of Yassir Arafat's Moscow visit planned for July 15, Mr. Andropov had tried to help the PLO leader. No convincing reason for the cancellation was offered on either side, but it is probable that President Andropov simply gave in to pressure from President Assad, who would not hear of a Soviet mediation between the Syrians and the Palestinians. And in any case, how could the Kremlin intervene when, on the one hand, the Syrian press was insisting that the Baathist regime was in no way implicated in the "inter-Palestinian" conflict, and, on the other, that Yassir Arafat was nothing but a "blackmailer," an "advocate of the Camp David Accords," and a "traitor." It seems obvious that, forced to choose between Arafat and Syria, Moscow would choose Syria because of the latter's strategic importance in the Israeli-Arab conflict.

The Palestinian leaders are well placed to understand such reasoning, even if they don't approve of it. Like it or not, they too acknowledge the crucial nature of Syria's role. Syria is the only Arab state which declares itself prepared to resist the Jewish state and America's "hegemonic designs," the only one which provides them with an operational base, thanks to its proximity to Lebanon, the occupied territories, and Jordan, which between them account for three-fourths of the Palestinian people. And, finally, it is through Syria that Soviet arms for the Fedayeen are channeled.

VIII

Seen from this perspective, there is no reason to doubt Yassir Arafat's sincerity when he says, as he did last February during a closed-door session of the Palestinian National Council: "Our strategic alliance with Syria is crucial. What would become of us without the sanctuary it provides us on Israel's borders? I say to you without shame: if the Damascus government threw me out the door, I would come back through the window; if the window were locked, I would dig a tunnel to get back into the country."

This conviction, shared by all the PLO leaders, has contributed to preserving the organization's unity during the first months of the crisis. In fact, the main organizations comprising the PLO, particu-

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larly the Popular Front of George Habash and the Democratic Front of Nayef Hawatmeh, have stood by Yassir Arafat on condition that he pursue the dialogue with Damascus and undertake "democratic reforms" liable to satisfy the demands of the Fatah dissidents (which both organizations recognize as being well founded). Which accounts for the relatively conciliatory attitude of Yassir Arafat, who has implicitly agreed to reduce his "personal power" while giving the go-head to successive mediation missions.

Syria, too, has avoided committing the irreparable, conscious of the risks involved in a total rupture with the PLO, which would discredit it in Arab and particularly Palestinian eyes. The Palestinians, some 300,000 of whom live in Syria, could undermine the stability of the Baathist regime, for example by lending a hand to the Muslim Brotherhood or other movements opposing President Assad's rule. After all, didn't they serve as catalysts for the oppositional forces in Jordan during the 1960s and then later in Lebanon? And aren't they still capable of carrying out assassinations or other actions against Syrian government figures and institutions—a threat which has been mentioned in Arafat's entourage? And even if there is a split, what credibility could a PLO entirely controlled by Damascus possibly have?

Taking into consideration the respective strengths and weaknesses of the Syrian chief of state and the PLO president, logic would seem to condemn them to a modus vivendi. The problem is how to reconcile the irreconcilable—the will of the first to control the Palestinian movement, and the determination of the second to defend his people's right to autonomous decision. As the summer of 1983 draws to a close, this is the major obstacle preventing the successful conclusion of the various mediation attempts. Nonetheless, if it were necessary to place bets on the future, one would perhaps not be far off in suggesting a compromise under which Yassir Arafat's freedom of action would be curtailed but not suppressed. He would remain at the head of the PLO, into whose ranks the dissidents would be reintegrated, but in exchange he would be compelled to harmonize his diplomacy with that of Hafez al-Assad, in hopes of better days ahead.

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Ali L. Karaosmanoğlu

TURKEY'S SECURITY AND THE MIDDLE EAST

Turkey defines its security options within three interacting strategic environments: the global system, implying mainly Turkey's position as regards the Soviet Union and the United States; its bilateral relations with Greece, involving mainly Cyprus and the Aegean; and its position within the Middle East subsystem.

After the Second World War, Turkey's freedom of choice was strictly limited by the Soviet threat and by the bipolar and heterogeneous character of the international system—the domination of world politics by the existence of the two diametrically opposed socio-political systems. First of all, Turkey considered itself part of the Western world ideologically. Second, confronted with the Soviet attempt to obtain control over the Straits and some of its eastern provinces, Turkey established very close ties with the United States, and finally became a member of NATO. In those years there was a high degree of coincidence between American and Turkish security interests. The objective was quite clearly the deterrence of the Soviet threat and the containment of Soviet expansion. Turkey's foreign policy demonstrated a remarkable simplicity. Its security policy showed a continuity of purpose, and defense planning was an easy task.

The last two decades have drastically altered the framework within which Turkish policy operates. Let us examine first the evolution of relations between Turkey and NATO, which is inevitably focused on the Turkish-American relationship. We shall then look at the continuing problem of Turkey's relations with Greece, and finally at the important new thrust in Turkish policy toward the Middle East as it has evolved in the past decade.

II

In the 1960s and 1970s, the circumstances which had induced Turkey to link its security interests completely with those of the

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United States underwent significant changes. In this period, Turkey's ties with the United States were steadily reduced. A number of specific political irritants played a role. The first was President Johnson's blunt letter to Prime Minister Inönü in June 1964, warning that Turkey was not permitted to use U.S. military equipment in an operation against Cyprus. The letter also threatened that NATO might not defend Turkey in the event of a Soviet aggression provoked by a Turkish military intervention in Cyprus. Equally dramatic was the U.S. arms embargo of July 1975. In both cases the most important damage was psychological. Obliterating the distinction between allies and enemies, these events enormously decreased the credibility of the Western Alliance in the eyes of the Turkish people and policymakers. Moreover, the more assertive role of Congress in foreign policy and security decisions signaled by the embargo affair allowed for greater intrusion of domestic political factors and of special interest groups into the American foreign policy decision-making process. This of course aroused deep anxiety in Turkish political circles and press.

The embargo also did great harm to Turkey's armed forces. Turkey's arms imports dropped steeply, and by the late 1970s it was unable to import the minimum of its arms needs. The Turkish armed forces are today still in an equipment crisis, with much weaponry out of date or deteriorating.

While still important in Turkey's foreign policy equation during this period, the Soviet threat became less immediate or direct, and ceased to be considered the main source of Turkish insecurity. Competitive relations with Greece became predominant over the East-West tension. The weight of Turkey's domestic problems increased. Adjustment to new economic conditions and to a changing international environment became the major preoccupation of policymakers. Efforts to adapt and to achieve greater autonomy in foreign affairs led to a foreign policy reorientation which was particularly reflected in closer ties with the Soviet Union, the Balkan neighbors and the Arab world. Nevertheless, Turkey's relations with the Warsaw Pact countries have never culminated in a politico-military rapprochement that would have been incompatible with Turkey's NATO membership.

During the years of détente, other important changes affected Turkey's foreign policy with regard to the global power configuration. The Soviet Union increased its military power and potential considerably in the 1960s and 1970s, supporting its intention to extend its sphere of influence beyond the "heartland" of Eurasia, and increasing its liberty of action in the "peripheral" areas such

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as the Middle East. Parallel to this development, the threat facing the southern flank of NATO in general and Turkey in particular has grown steadily in recent years.

First of all, the change in the overall nuclear balance in favor of the Soviet Union—although it has not yet gone beyond a certain parity—and the consequent American incapability of controlling escalation may well encourage the Soviet Union to be more assertive in time of crisis. There has been a linkage between the U.S. strategic deterrent and threats to U.S. interests in the Middle East. The alerting of U.S. strategic forces against a Soviet intervention during the 1973 Arab-Israeli war showed that this linkage existed. Given the present global nuclear balance, it remains an open question whether the United States could invoke this linkage if, and when, a crisis occurred involving a direct Soviet intervention.

Second, military trends on the southeastern edge of NATO have been dangerously unfavorable to the Alliance. The Soviets have recently increased the number of their divisions in the Caucasus area and have partly upgraded them, improving their combined-arms capability. In the Mediterranean, the Soviet Union has considerably improved its naval presence both quantitatively and qualitatively. The growth of Soviet anti-ship firepower capabilities, resulting from the development of long-range and high payload land-based aircraft, has increased the threat to NATO shipping in the Mediterranean. Thus Turkey's sea lines of communication, which are indispensable for supply and reinforcement in time of war, have become even more vulnerable.

Third, the Soviet-Syrian alliance is also a worrisome development for Turkish strategic planners. The prepositioning in Syria by the Soviets of heavy sophisticated weaponry increases the vulnerability of southern Turkey and adds to the probability of a multiple-front offensive.

Finally, the unprecedented degree of terrorism from which Turkey has suffered in recent years, on the one hand, and the Soviet invasion of Afghanistan and the destabilized political situation in Iran, on the other, have made the pressure of Soviet power heavier than ever for Turkey.

The increasing Soviet pressure and the growing vulnerability of the southern flank have induced Turkey to act at the same time decisively and cautiously. It is acting in NATO affairs much more firmly than five years ago. It has been gradually increasing military cooperation with the United States and some other allies in order to strengthen the southern flank.

On the other hand, Ankara acts cautiously in the sense that it is

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careful not to be provocative. It also involves itself in the prevention of local conflicts which might escalate into a confrontation between the United States and the Soviet Union. Such a confrontation in the region could in turn escalate "horizontally," and Turkey could not remain immune from it.

Turkey's relations with the United States have improved significantly. The arms embargo ended in September 1978. Especially during the last three years, Turkish-American security relations have grown considerably closer. On March 29, 1980, the two governments signed an "Agreement for Cooperation on Defense and Economy," whose article 5, paragraph 4, emphasizes that "the extent of the defense cooperation envisaged in this Agreement shall be limited to obligations arising out of the North Atlantic Treaty."

This agreement is being implemented satisfactorily. During a visit by U.S. Secretary of Defense Caspar W. Weinberger to Ankara in early December 1981, the two governments announced the establishment of a high-level joint military group to improve defense cooperation between their two nations. They also confirmed their agreement to work together to improve NATO's military posture in the region and to modernize the Turkish armed forces. According to the terms of this agreement, the United States is assisting Turkey in the maintenance, repair and modernization of defense equipment. The United States is also working with Turkey for the implementation of new weapons production projects.[1]

Within the general framework of the Defense Cooperation Agreement of March 1980, and after 18 months of negotiations, U.S. and Turkish representatives in November 1982 concluded a "Memorandum of Understanding" providing for the construction, improvement, and joint use of some airfields mainly in the eastern provinces of Turkey. This document and the efforts made for its implementation have aroused in the Turkish and American press some speculation on the possibility of using these bases in a Persian Gulf contingency involving or not involving a direct Soviet military intervention. Turkish and U.S. officials have, however, emphasized on many occasions that the construction and improvement activities stipulated in the Memorandum have no connection with the U.S. Rapid Deployment Force (RDF), and that airfields will be limited to NATO uses in pursuit of agreed Alliance missions. Moreover, it has been reported that the Memorandum of Understanding contains several provisions linking it to NATO defense plans.

[1] In its defense modernization efforts, Turkey is also cooperating closely with the Federal Republic of Germany. The Tank Upgrading Program and the Frigate Construction Program are two prominent examples of Turkish-German defense cooperation.

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As a matter of fact, advance Turkish approval for use of these bases by the United States in a Middle Eastern or Gulf contingency would be incompatible with Turkey's security concept as well as with its self-defined role in the area.

The most recent indication of improving relations between Washington and Ankara is the considerable increase in U.S. assistance to Turkey proposed last February by the Reagan Administration. In terms of this proposal, military and economic aid to Turkey would rise to $934 million. The largest share of the new program would be military assistance ($759 million, including the $4 million reserved for training facilities for Turkish officers and specialists in the United States). The remaining $175 million would constitute economic support aid to Turkey for fiscal 1984. This represents a substantial rise from the $650 million which was actually made available in fiscal 1983.

However, Congress seems strongly inclined to maintain the seven-to-ten ratio for U.S. aid to Greece and Turkey, and has already slashed $40 million of the proposed military aid to Turkey while increasing aid to Greece from $280 to $500 million. The Administration has never accepted this ratio, and has stressed that it will fight to maintain the new aid level proposed to Congress. The Turkish government believes that such an artificial ratio would be irrational, and that, in establishing the amount of the aid, the tasks assigned to different NATO members under the NATO defense plans and the size of the armed forces of the countries concerned should be taken into consideration. Moreover, the Turkish leaders and people alike feel strongly that linking U.S. assistance to the Greek-Turkish disputes and trying to use it as a means of pressure to settle them would be the worst policy. Past experience shows that it does not help solve problems, but only renders them more difficult and complicated.

III

The disputes between Greece and Turkey—especially those over Cyprus and the Aegean, two critical strategic areas from Turkey's security standpoint—constitute an important factor contributing to the erosion of NATO's southern flank. Putting aside the command and control problems and likely force deployment difficulties created by the tension between the two allies, the Soviet Union is provided with ready opportunities to exploit problems between Greece and Turkey, promoting anti-Western feelings and destabilizing their internal political systems.

The first and probably most urgent problem concerns the meth-

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ods of settlement of the Cyprus conflict. For Turkey, intercommunal talks constitute the only valid procedure for reaching a mutually acceptable and lasting settlement in Cyprus. Greece does not seem to have adopted this approach. It rather favors the internationalization of the conflict, drawing in especially the nonaligned nations, the European Community, and both superpowers.

Turkey believes that bilateral negotiations would be best for the Aegean as well. Because of the special circumstances of that sea, an equitable solution to the existing problems can be found only through such negotiations. Greece again rejects this approach, and favors the automatic application of the equidistance principle as in the continental shelf case. Greek responses on issues concerning territorial waters, airspace, and the remilitarization of Greek islands in violation of international treaties indicate that Athens may well incline toward unilateral Greek decision and action.

It should be noted that this Greek dislike for negotiated settlement has been accentuated since Andreas Papandreou came to power. The present Greek government has asserted that Turkey is a security threat, and has demanded from NATO and the United States "guarantees" to protect Greece from its fellow Alliance member. NATO and the United States have not accepted the view that Turkey menaces Greece, and have refused the Greek demand for guarantees.

The Turkish perception of Greek-Turkish problems is traditionally more moderate than the Greek one. Domestic troubles including the struggle against terrorism, in addition to the increasing Soviet assertiveness in Southwest Asia, have recently appeared to be more pressing than Greek-Turkish tension. Many Turks continue to view the Greek question more as a nuisance than a threat. With the victory of Mr. Papandreou's Panhellenic Socialist Party, however, Greece has become even more unreliable and more disturbing an ally for Turkey. This uneasy situation continues to complicate not only Turkey's defense plans but also its relations with the United States and other allies.

IV

The Republic of Turkey, founded on Kemalist principles, had to eliminate the theocratic remnants of the Ottoman Empire and to develop a secular political structure. Thus, despite its religious and historic affinity with the nations of the Middle East, modern Turkey preferred not to show much interest in the region and especially in the Arab world, although it tried to maintain friendly relations with all its neighbors. Only the need to achieve a satisfactory settlement

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of the border dispute with Iraq over the oil-rich Mosul area in the mid-1920s, and with Syria for possession of Hatay, also known as Alexandretta in the late 1930s, obliged Turkey to get provisionally involved in the affairs of the region. Another major exception occurred during Turkey's search for security along its eastern borders, through the conclusion in 1937 of the Saadabat Pact with Iran, Iraq and Afghanistan. This was, however, no more than a loose nonaggression arrangement.

After the Second World War, options being strictly limited, Turkey approached the Arab world from the unidimensional perspective of East-West tension. The Central Treaty Organization (CENTO), a part of the Western security system, never offered Turkey a viable security alternative. Turkey's relations with its West European allies were much more intimate than its contacts with Middle Eastern countries—and Ankara's lack of interest in the Middle East was misinterpreted by the Arab nations as an unfriendly attitude. First, Turkey's adoption of Western institutions was regarded by many Arabs as alienation from Islam. Second, differences in historical development, foreign policy tradition, geographic positions, and strategic problems led to divergent threat perceptions. Farther from the U.S.S.R., the Arabs did not feel the Soviet threat as Turkey did. Most Arabs showed a strong inclination to establish close relations with the Soviet Union in order to balance American influence and gain support against Israel.

In the 1970s, however, Turkey began to increase its economic cooperation with Iraq, Libya, Saudi Arabia and the Gulf states. It recognized the Palestine Liberation Organization in 1976, and agreed in August 1979 to the opening of an Ankara office by the PLO. The Turkish-Arab rapprochement had significant politico-military ramifications as well. During the Arab-Israeli war of 1973, Moscow's overflights of Turkish airspace were tolerated. On the other hand, during the same Middle East conflict, Turkey refused to allow the United States refueling and reconnaissance facilities during the American airlift to Israel—in obvious contrast with the Turkish policies in the 1950s when Turkey allowed the United States to use the bases on its soil in carrying out the landings in Lebanon during the civil war in 1958. Turkey is also interested in developing cooperative military programs with Arab nations, primarily in the training field. To this effect, preliminary contacts are being made with Saudi Arabia, Jordan and Tunisia.

Nevertheless, the increasing Soviet threat combined with changes in the Turkish domestic political milieu has recently induced Turkey to conduct a more balanced but more complex foreign policy

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in the Middle East. In order to comprehend Turkey's stance on more specific issues like the RDF, the Arab-Israeli conflict, and the Iran-Iraq war, one has to deal first with such general questions as Turkey's interests and foreign policy principles in the Middle East.

V

Turkey should not, and in fact does not, regard Persian Gulf security as exclusively an American or European matter. All the allies including Turkey share vital interests in the area. An interruption, or even a threat of interruption, in the oil flow from the Middle East, especially if it were linked to an increase in Soviet politico-military influence in the region, would undoubtedly have calamitous implications for Turkey. Its effects would cripple Turkey's economy and defense. Ankara's security posture would also suffer seriously from the collapse of the Western economic position. Moreover, the control of Iran and the Persian Gulf area by pro-Soviet forces or by the Soviet Union itself would result in the encirclement of the southern flank of NATO.

Western security as a whole is closely linked to stability in the Middle East. Soviet control of Persian Gulf oil—directly, or more likely through surrogates—would provide Moscow with a valuable means of intimidation. Political pressure would be exerted on NATO Europe by threats to interrupt the flow of oil on the one hand, and by offers of more security and preferential treatment on the other. This would imply a multiplication of Soviet possibilities to manipulate West European public opinion and to promote fragmentation of the Alliance. Turkey, with such West European allies intimidated to docility, would certainly feel far less secure than it does today.

Turkey's growing political and diplomatic concerns in the region have also been, to a considerable extent, a result of the intensifying economic ties which were forced upon it by circumstances. Like almost all the Western countries, Turkey is dependent on Middle East oil for the functioning of its economy. Ankara's domestic oil resources today can provide only 16 percent of its needs. The proportion of oil imported has been rising rapidly. The cost of all Turkey's imports in 1980 amounted to $7.4 billion, a 46-percent increase from the 1979 level of $5 billion.[2] Virtually the entire increase in imports was related to the import of oil, non-oil imports being estimated to have increased only about 15 percent. (Rising oil prices accounted for approximately 80 percent of the increased value of oil imports.) Imported crude oil cost $2.65 billion in 1980

[2] It is interesting to note that the export revenues in the same year totaled only $2.910 billion.

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compared to $962 million in 1979. A considerable share of the imported oil comes from Iraq and the other Gulf states.[3]

Even the Western economies are not able to adjust easily to abrupt reductions in oil supply, and to consequent price increases. For Turkey, another tremendous and sudden increase in the oil bill would bring about a shocking destabilization of the economic system, probably leading to serious social disturbances, even if it may be assumed that Turkey will continue to get some oil from Libya and Iraq.[4]

The strategic aspects of oil are at least as important. Military strategy has become increasingly reliant on massive wartime fuel supplies which are normally larger than under peacetime conditions. Meeting new logistic requirements, controlling oil-producing areas, and interrupting enemy oil-supply lines have become in the present era the leading operational objectives. So oil plays a key role not only in the functioning of the Turkish economy, but also in achieving a viable conventional defense during international crisis and war. There is hardly any doubt that the conventional Soviet threat would loom more ominously over Turkey if the country were deprived of a secure oil supply.

Another area of economic cooperation with the Middle East countries is seen in the spectacular performance of Turkish contractors in the region. Tight credit and the depressed domestic market of the last four years have induced Turkish construction firms to seek contracts abroad more actively. The process was also spurred by the need of the oil-rich Middle East countries to rapidly realize broad infrastructure development. So the service receipts obtained by Turkish contractors operating in the region, particularly in Libya and Saudi Arabia, have steadily increased. By January 1981, Turkish contractors had secured contracts amounting to about $3.5 billion in those two countries alone, with additional contracts signed in the Gulf states and Iraq. It is estimated that the total value of contracts held by Turkish contractors in Libya, Saudi Arabia and Iraq amounted to $10 billion by the end of 1982.

As Turkish contractors multiply their business, the number of Turkish workers in the region continues to rise. There are about 150,000 workers in the Middle East, and in 1981 they sent back $500 million in earnings. The figure is impressive when compared

[3] In 1981, 7 million tons of a total of 12.5 million tons imported came from Iraq, 2.4 million tons from Libya, and 0.9 million tons from the Soviet Union via Iraq. In April 1982, Turkey and Libya agreed to increase Libyan petroleum exports to Turkey to 4 million tons.

[4] See, on this subject, Seyfi Tashan, "Persian Gulf Security: A Turkish View," a paper presented at the "Persian Gulf and Energy Security" Workshop, June 4–6, 1981, Kronberg, Federal Republic of Germany, p. 1.

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with the $2 billion transferred to Turkey by some 800,000 Turkish workers in Europe during the same period. The growing activity of Turkish contractors in the Middle East has also brought about a considerable increase in Turkish exports of construction materials to the region. The other Turkish exports to the Middle East are food and various kinds of consumer goods. Export earnings from the Middle East countries in 1979 were worth $400 million and were about twice that in 1981. An increased percentage of exports goes to those states each year. In 1979, 23 percent of Turkey's total exports had gone to the Middle East, and 64 percent to Western countries, mainly the European Economic Community. In 1981, exports to the Middle East rose to 44 percent while those to the West fell to 49 percent.

Turkey's security interests in the Middle East and Persian Gulf area are undoubtedly to a great extent a consequence of the fact that its security is linked to Western security. On the other hand, Turkish policy for security in the region also stems from its geographic position, its peculiar cultural development and its growing economic relations with the regional states. Turkey needs to develop a favorable milieu in which threats are minimized and economic relations maximized. It therefore has a great interest in peace and stability in the region. Turkish governments believe that "a harmonious balance between the main course of Turkey's policies and its regional policies will not only be in the best interests of regional peace and stability, but also be in the best interests of Turkey as well as those of our Western Allies."[5]

Today Turkey's approach to the Middle East is guided by a series of principles. First, Turkey refrains from taking sides in local disputes, but it would act as a mediator when invited by all the parties concerned. Prime Minister Bülent Ulusu has been an active member of the Islamic Conference mission mediating between Iran and Iraq. Second, Turkish foreign policy is sensitive to Arab security interests. It takes care that Turkey's cooperation with the West, especially in the field of defense, should not damage the security interests of Arab states. This implies particularly a refusal to permit the utilization of defense installations in Turkey against Arab interests. Third, Turkey observes the principle of noninterference in internal affairs of Middle Eastern states. It regards changes of political regimes in those countries as domestic developments. Fourth, Turkey believes that its relations with Arab nations are

[5] Taner Baytok, "Recent Developments in the Middle East and South West Asia: Impacts on Western Security," *NATO Review*, August 1981, p. 12.

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best handled on a bilateral basis according to the circumstances and characteristics of each state. In joining the Islamic Conference, Turkey thought that its participation would provide a useful ground to further economic relations with the members of the Conference at a bilateral level.[6]

Finally, in contrast with Arab nationalism, Turkish nationalism has no religious component. The Turkish state system has a secular character, which is enshrined as a fundamental principle in the Turkish Constitution. The question has been raised whether this principle is an obstacle to Turkey's participation in the Islamic Conference. Turkish diplomacy does not usually see a conflict.[7] Nonetheless, Turkey, while enjoying full membership in the Conference, takes part in its activities only to the extent that the Turkish Constitution and the fundamentals of its foreign policy allow it to do so. At each session, Turkey emphasizes its position in a general manner by inserting a reservation in the records.

VI

It will not be easy to keep a harmonious balance between the main course of Turkey's policies and its regional policies in a period of East-West tension, and particularly if military action should be required at the regional level to defend vital interests of the Western Alliance. The problem becomes even more complex when one considers the volatile character of the Middle East subsystem.

Albert Wohlstetter is the first, and probably the only, private strategist who has thoroughly examined Turkey's potential role in the protection of Persian Gulf oil. Very briefly summing up Professor Wohlstetter's analysis, he argues that, because of its geographic position, Turkey could play a crucial role in working out a viable defensive strategy in the region. From bases in Turkey, modern combat aircraft could interdict Soviet lines of communication in case of a Soviet attack south through Iran. Turkey might provide the only bases in the area from which NATO forces could strike at the origins of the attack.

Moreover, Wohlstetter continues, Turkey is important not only because of its location but also due to its NATO membership. Operations from Turkey would have the advantage of demonstrating allied involvement. It is, however, of great importance that "other members of the alliance prepare to act jointly with Turkey

[6] See Ayhan Kamel, "Turkey's Relations with the Arab World," *Foreign Policy* (Ankara), 1974, Vol. 4, No. 4, p. 105.

[7] Hamit Batu, "New Developments in Turkish Foreign Policy," *Foreign Policy* (Ankara), 1976, Vol. 5, No. 5, p. 13.

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in defense against potential Soviet aggression in the Gulf. Preparations for such joint action, of course, would have to envisage reaffirming that some sort of guarantee by NATO powers would apply to Turkey." Such joint planning would emphasize the NATO involvement with Turkey, and help deter any Soviet inclination to move against the Gulf. This would of course imply that the essential strategic connection between the southern flank of NATO and the Persian Gulf would also necessitate improvement in the defense of the southern flank in general, and of Turkey in particular[8].

It seems that the present U.S. Administration has come to adopt more or less the approach advocated by Wohlstetter, though officially it has made no demands on Turkey as regards the RDF. How does Turkey respond to this approach? What is Turkey's policy in connection with Persian Gulf security? What are the major constraints preventing Turkey from making policy commitments regarding the Gulf?

Sensitive to both regional and global realities, Turkey tends to conduct a subtle foreign policy in the Middle East. Turkish governments have so far refrained from assuming any responsibility outside the NATO treaty area with respect to the Gulf and other peripheral regions, and on several occasions Turkish officials have declared that Turkey has no intention of taking part in the RDF. Nevertheless, recent statements have also made it clear that Turkey would agree to consider the matter within the framework of NATO arrangements. In fact, Turkey, as a NATO member, has always participated in both official and unofficial meetings, with Americans and other allies, concerning Persian Gulf security. Turkey's position can be summarized in three points:

—Turkey will make no formal strategic commitment outside the NATO framework.

—It will remain ready and willing for consultations about Gulf security with its allies.

—As can be deduced from the preceding points, Turkey wants to reserve its freedom of action to stand aloof from or participate in a Gulf operation according to the circumstances of the specific case and the nature of the operation itself. This implies that Turkey might well act militarily, on the basis of an ad hoc decision, against an actual threat to the Gulf. Here is an ambiguity having a certain deterrent value.

Turkey's discretion can be explained above all by its regional

[8] Albert Wohlstetter, "Meeting the Threat in the Persian Gulf," *Survey*, 1981, Vol. 25, No. 2, pp. 174–188.

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interests and foreign policy principles. Moreover, it can be attributed to the changing strategic environment which has brought considerable pressure upon Turkey in recent years. As I have already dealt with these factors, I now turn to two other factors which are also behind Turkey's cautious attitude. First, the European allies are as cautious as Turkey. Second, Turks do not feel confident about the American approach to the region.

Although all the Western allies agree that Soviet actions in the Middle East and Persian Gulf area should be countered, they have not been able to work out a coherent strategy for the region. The European allies (and Japan) recognize that they are vulnerable to disruption of Persian Gulf oil. Where they seem to turn aside from the American position, however, is in their perception of the threats, and how to deal with them. Most Europeans believe that the greatest threat to their security is a possible U.S.-Soviet confrontation. The allies, therefore, are reluctant to involve NATO in Persian Gulf security and to participate in military programs that they consider potentially destabilizing for the region. In the face of this allied attitude, the advantage expected from the linkage between Persian Gulf security, Turkey and NATO becomes highly problematic.

Turkish opinion about American policies in the Middle East seems to be similar to that of the Europeans in some respects, especially on how to deal with threats to Middle East and Persian Gulf security. As an American expert on Turkey has observed quite correctly, although Turkish and American views of all major problems in the Western Alliance are closer than they have been since the 1950s and probably closer than those of the United States with any other Alliance member, Turks do not feel confident about U.S. policies toward the Middle East.[9] They are not sure that the United States has defined its own strategic objectives clearly enough. This is particularly palpable on such questions as the mission of the RDF, the ways of coping with lesser conflicts, and the Arab-Israeli conflict.

In the case of the RDF, the definition of objectives has been overshadowed by the analysis of means. Much has been written about the logistics problems and the design of the Force. But no adequate answer has so far been given to the question of what ends the RDF should serve.[10] U.S. officials emphasize that the Force is

[9] Paul B. Henze, "Turkey, The Alliance and the Middle East: Problems and Opportunities in Historical Perspective," paper presented at the Woodrow Wilson Center in Washington, D.C. on January 19, 1982, pp. 32–33.

[10] Christoph Bertram, "Introduction," in *America's Security in the 1980s*, Adelphi Paper (No. 173), 1982, p. 2.

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programmed to deter Soviet aggression in Southwest Asia, particularly as it threatens access to oil, and to prevent the threat of Soviet military power being used for political coercion. But the prevention of lesser threats is also included by the Administration in the mission of the RDF. The Administration's approach to the question has been stated as follows: "For Southwest Asia, we are on a path towards development of a capability to meet the most demanding threat in the region which, inherently, will also provide the concepts and tailored forces necessary to cope with many lesser threats."[11] In light of this approach, the independent Congressional Research Service arrives at the inevitable conclusion that "the planned Rapid Deployment Joint Task Force will be sized to fight against the most serious threat, a direct Soviet aggression into the region, apparently assuming that some part of the force will be able to cope with any lesser threat arising out of regional conflict or internal instability."[12]

Turkey has serious doubts whether the RDF would be useful against low-level conflicts involving or not involving indirect Soviet initiatives. The regional countries themselves are better able to deal with such contingencies. This, of course, would not exclude regional collective defense organizations, or assistance to the pro-Western regional states through arms transfers and other security programs. Turks believe that if local regimes are unwilling to face regional security problems and internal insurgencies, U.S. (or allied) military intervention would be useless, and even harmful to Western interests in the long and medium term. Arab states, too, are ambiguous about the American policies. All the emphasis put upon the RDF and the protection of oil resources has created the impression that military measures and asset-seizing strategies are the centerpiece of U.S. policy in the Middle East and Persian Gulf. So most Arabs have become inclined to view the RDF as a possible threat to their oil resources and to their own security, rather than as a protector against the Soviet threat.

VII

The Turkish administration concentrates both on the global and regional aspects of Persian Gulf security. It is concerned not only about the dangers of a direct Soviet intrusion—which is for the Turks the most ominous and probably even a likely threat—but

[11] *The Persian Gulf: Are We Committed? At What Cost?* (A Dialogue with the Reagan Administration on U.S. Policy), Prepared for the Use of the Joint Economic Committee with the Assistance of the Congressional Research Service, Washington, D.C.: GPO Dec. 21, 1981, p. 29.

[12] *Ibid.*, p. 14.

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also about local elements such as the causes of internal instability, the dangers of inter-Arab conflicts, the dangers of religious and nationalist radicalization, and above all the Arab-Israeli conflict as a factor influencing Arab attitudes.

Turkey conducts a low-key policy toward Israel. In contrast with its efforts to strengthen links with Arab states, especially in the economic field, its relations with Israel have been steadily reduced. Turkey was among the first countries to recognize Israel (on March 28, 1949). But it deplored Israel's invasion of Arab lands in the wars of 1956 and 1967[13] and became more engaged in the Arab cause after the war of 1967. In December 1980, Turkey finally decided to withdraw all its embassy staff from Tel Aviv, except for a second secretary acting as a chargé d'affaires, and asked the Israeli government to lower its diplomatic representation in Ankara to the same level. Turkey strongly urges a return by Israel to the 1967 frontiers, and opposes any change in the status of the occupied territories, including Jerusalem. Turkish governments have never ceased to believe that a durable and equitable settlement of the Middle East conflict cannot be reached without recognizing the Palestinians' right to form their own independent state. Turkey's relations with Israel are today at their lowest level. Nevertheless, despite Arab suggestions that Ankara cut off the remaining ties, Turkey seems to have no intention of severing relations with Israel completely.

The Turkish attitude toward the Arab-Israeli conflict deviates to a considerable extent from the American one. There is in Washington a widespread view that, given the other conflicts in the region, resolving the Palestinian question will not necessarily guarantee peace and security in the Middle East. It is true that peace between the Arab states and Israel will not solve everything or restore tranquility in the region. Other sources of instability will continue to exist, preparing conditions for Soviet influence. But it is also true that the Arab-Israeli conflict contributes greatly to the deterioration of the Western position by imposing an enormous burden on Western security policies. There is an inescapable link between the creation of a "consensus of strategic concerns" in the region and the Arab-Israeli conflict.[14] For all the Arab leaders, the Arab-Israeli issue is the centerpiece of security concerns. For many Arabs in the Gulf, the Israeli threat is even more dangerous than the Soviet one.

[13] See Ömer Kürkçüoğlu, "Turkey's Attitude towards the Middle East Conflict," *Foreign Policy* (Ankara), 1976, Vol. 5, No. 4, pp. 23–33.

[14] On the same subject, see Christopher Van Hollen, "Don't Engulf the Gulf," *Foreign Affairs*, Summer 1981, p. 1065.

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Qatar's Information Minister made this quite clear in an interview in *Middle East Magazine*'s October 1981 issue: "The West is trying to sell us the idea of danger in Afghanistan, but I think Jerusalem is nearer than Kabul."

Because of U.S. support for Israel, the establishment of security ties with the United States is generally regarded as a heavy political liability. The regional states do not want to be seen by other regional states and their own peoples as a surrogate of Washington. They fear that such military arrangements would rather contribute to their own insecurity. Moreover, it should be noted that the Palestinian question continues to be an all-Arab concern. Until it is resolved, it will continue to influence the legitimacy of Arab governments. They could abandon the cause only at the risk of eroding their own legitimacy. Finally, there is every reason to believe that the Arab-Israeli conflict is promoting, throughout the region, not only the expansion of direct Soviet influence, but also such radical political currents as Arab nationalism and Islamic fundamentalism.

The Israeli invasion of Lebanon, however, has recently induced many people to believe that the close relationship between Israel and the United States is not of a permanent character. The destruction of Beirut by the Israeli artillery and air force, and the subsequent massacres in Sabra and Shatila, acted as the major factors which brought about a change in American public opinion, and then in Washington's attitude toward Israel. In assuring the successful evacuation of PLO and Syrian forces from West Beirut in August 1982, the United States played a very useful role. Moreover, the U.S. Administration decided to exploit the diplomatic openings created by the invasion and its aftermath with President Reagan's peace plan proposed on September 1, 1982, which was followed shortly by the Arab League Summit peace proposals at Fez on September 8.

Although Turkey regards the Reagan Plan as a serious initiative with some constructive aspects, it prefers the Fez Proposals as a more realistic and appropriate basis for negotiations leading to a comprehensive settlement. The Reagan Plan undoubtedly has some merits. It focuses on the Palestinian question as the crux of the Middle East conflict. It assumes that the core issue does not lie in Lebanon, but in the West Bank and Gaza. It indicates quite clearly that Israel should not annex or permanently occupy these areas. The Plan constitutes an attempt, albeit incomplete, to reconcile Israel's security concerns with the legitimate rights of the Palestinians. As Joseph J. Sisco has pointed out, it moves the emphasis "from crisis control to the peace process, and from primary concern

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over the Soviet strategic threat to the underlying indigenous problems of the region."[15]

Although it represents a certain improvement in the American conception of the Middle East situation, the Reagan Plan still has some very important shortcomings. It falls far short of Palestinian aspirations, since it does not support the right of self-determination and the establishment of an independent Palestinian state, and also does not recognize the PLO as the legitimate representative of the Palestinian people. Ruling out the option of an independent Palestinian state in advance and rejecting the PLO, the Reagan Plan not only restricts the potential range of possible solutions, but also underestimates the role of Palestinian nationalism in the political and social dynamics of the Middle East. But, on the other hand, the Plan overestimates Jordan's capacity to assume the major responsibility in the solution of the Palestinian problem.

There is a widely shared impression that the aloofness of Moscow during the Lebanon war has occasioned a decline in its influence in the Arab world. For those who evaluate the situation from Turkey's security perspective, it would be extremely difficult to adopt this view. It is true that the Lebanon war, while provisionally improving the reputation of the United States, raised the question of the reliability of Soviet arms and of Soviet political and military support. But the war and the subsequent failure of the Reagan Plan have provided Moscow with valuable avenues for increasing its influence by shifting the balance of power in the region to its advantage.

After the defeat of the PLO and Syria in Lebanon in the summer of 1982, Moscow acted decisively to rearm Syria. The Soviets have quickly replaced all the equipment lost by the Syrian army. Moreover, they have supplied Syria with two batteries of SAM-5 missiles and other sophisticated command and control equipment. Moscow has also strengthened its commitment by increasing the number of its military personnel in that country. Unquestionably, this constitutes a strategically disturbing development for Turkey.

Second, Israeli policy toward the West Bank and its repression of Arabs in that area, the inaction of Arab governments during the invasion of Lebanon, and the frustrations caused by the failure of the American peace proposals not only erode the prestige of the conciliatory forces, but also increase the credibility of Arab rejectionists who have much to gain from seeking greater Soviet involvement in Middle East affairs. Even the most moderate Arab govern-

[15] Joseph J. Sisco, "Middle East: Progress or Lost Opportunity?" *Foreign Affairs, America and the World 1982*, p. 628.

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ments are beginning to regard the Soviet Union as an indispensable element in the strategic equation of the Middle East. Moreover, the challenge to Yassir Arafat's leadership of the PLO may eventually produce a more radical organization, and may increase Syria's as well as Moscow's leverage in Mideast politics.

VIII

The fratricidal war of attrition between Iran and Iraq is another worrisome development. It continues without clear success for either side, and the recent battles have shown that no party has the strength to mount a decisive offensive. Turkey is particularly careful to pursue a policy of neutrality as regards the conflict. This has not prevented Ankara from trying to help the conflicting parties bring an end to their war and find a peaceful and honorable solution to their dispute. Turkey became a member of the Islamic Peace Committee set up right after the beginning of the war and has actively participated in its work. The efforts of the Committee so far have proved unsuccessful in conciliating the two parties. Nonetheless, the Turkish government emphasizes Turkey's readiness to expend all possible efforts to stop the war and settle the dispute by peaceful means.

Turkey's reasons for seeking an early negotiated settlement to the Iran-Iraq war are several. First, the bartered trade between Turkey and the two conflicting countries has enormously increased in recent years—partly as a consequence of war, but mainly in line with the recent reorientation of Turkey's economic relations from the European Community to the Middle East. The war has caused considerable destruction to the material resources of both Iraq and Iran. Their oil output is shrinking, and their financial resources decreasing. If these resources were used for their progress and prosperity, economic cooperation could be much stronger than it is today.

Second, the continuation of the war has created a dangerous power vacuum in the region, which is becoming more and more disturbing from Turkey's security standpoint. The growing inability of both states to control their own territories effectively is encouraging the separatists, militant leftist groups, and other centrifugal forces in Iraq and Iran. In Turkey's southeastern provinces, villages close to the frontier are being terrorized and roads vital for international transportation are being attacked by armed bands, infiltrating especially from Iraq. In May 1983, in order to stop such violations of the Turkish frontier, the Turkish armed forces undertook, with the consent of the Iraqi government, a limited but

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successful police operation against some of these groups based in Iraqi territory.

Third, the war may bring about a further radicalization of the regimes in Iran and Iraq. This in turn would increase the already existing instability in the region, and would provide a more fertile ground for Soviet influence.

IX

Turkey develops its security priorities by taking into consideration not only the dangers of Soviet expansion, but also the complexity of regional problems and their relationship to the global balance. Thus it does not separate the question of Middle East and Gulf security from the Arab-Israeli conflict and the Palestinian question.

Although Turkey has no intention of severing diplomatic relations with Israel, it views this state's uncompromising attitude as the main, if not the only, source of Middle East unrest. According to Turkey, peace in the Middle East can only be reestablished if Israel evacuates the Arab lands which it invaded in 1967 and the Palestinian people gain the right to form their own independent state. Furthermore, Turkey believes that no lasting settlement can be reached without the participation of the only legitimate representative of the Palestinian people in the negotiations. The settlement of the Arab-Israeli conflict would eliminate most of the conditions for increased Soviet influence in the region.

Just as Turkey places a high priority on efforts to strengthen its relations with the Middle East countries—second only to its membership in the Western Alliance—most of the regional states regard Turkey as an important factor for peace and stability, and appreciate its security requirements as a member of NATO. The upgrading of the Turkish armed forces and the improvement of the bases for an effective allied reinforcement capability would serve to heighten deterrence against potential attack, and would unavoidably affect the regional balance in the Middle East and Persian Gulf area in favor of the West. Though the area would remain beyond NATO's zone of responsibility, the revitalization of NATO's defense posture would undoubtedly help prevent any adverse political repercussions which might arise out of a perception of overwhelming Soviet superiority in the region.

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Valéry Giscard d'Estaing

NEW OPPORTUNITIES AND NEW CHALLENGES

I. The World Economic Situation

The past—including my past—is over. The prophet Isaiah wrote: "Forget the former things. Do not dwell on the past. See, I am doing a new thing. Now it springs up. Do you not perceive it?" At every moment of life, at every moment of activity, one should mostly envisage the future, and that is the reason for the title of these lectures.

In my comments on the world economic situation, I will cover three points. The first will be the conditions for a lasting economic recovery; the second, my view on the phased march toward a new Bretton Woods; and the third, a joint assessment of the structural aspects of the crisis.

II

The Williamsburg Summit provided an opportunity to mark the end of the world economic crisis we have lived through since 1973. Mutual undertakings should have carried a clear signal to all actors on the economic scene. The opportunity was not seized.

I do not want to minimize the results of the Williamsburg Summit. For instance, the joint statement on arms control and security, in the present context of relations between the Soviet Union and the West, was a significant collective step, with three major components:

—the confirmation by the three European countries concerned that they will proceed with the deployment of Euromissiles starting at the end of this year unless a now improbable agreement on current INF negotiations takes place

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Valéry Giscard d'Estaing was President of France from 1974 to 1981, having previously been Minister of Finance (1962–65 and 1969–1974) and member of the French National Assembly. This article is adapted from his Leffingwell Lectures, delivered at the Council on Foreign Relations on April 25, 26 and 28, 1983, which dealt respectively with the world economic situation, international relations, and recent trends in European democracies. In the original first Lecture, President Giscard d'Estaing expressed his views, in the first two substantive sections (II and III), on what might be done at the Williamsburg Summit in late May. Because of the timeliness of these particular comments, they then formed a major part of the author's article, "A Communiqué for Williamsburg: For a useful summit," that appeared in *The Economist* of 21–27 May 1983 and simultaneously in other publications. Thus, these two sections have now been replaced by new material addressing the situation as of mid-summer, in the light of the Williamsburg Summit. The remainder of the first Lecture, along with the second and third Lectures, is essentially unchanged.

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before; the electoral results since then in the United Kingdom and Italy have given additional weight to this commitment;

—the explicit exclusion of the French and British nuclear forces from INF negotiations, which was necessary since some imprudent steps had led the Soviet Union to insist on their inclusion and cast some doubts on the attitude of Western countries; to be sure, the proposal by the U.S.S.R. after the Williamsburg Summit to impose a freeze on existing nuclear forces, including European ones, shows that this fundamental question, which is addressed in my third Lecture of this series, remains most unfortunately outstanding;

—the reference to the indivisibility of security, to be approached on a global basis, conveys to Japan and indirectly to the People's Republic of China, recently neglected by the United States and European countries, the most welcome indication that any agreement on a new equilibrium of forces in Europe will not be to the detriment of the much needed equilibrium of forces in Asia.

But, as far as the economic recovery is concerned, the Williamsburg communiqué, through its vague references to the commitment to reduce structural budget deficits and to "pursue appropriate monetary and budgetary policies that will be conducive to low inflation, reduced interest rates, higher investment, and greater employment opportunities," does not reflect any resolute collective leadership in the management of the world economy. And public opinion, whatever was the wording of the conclusion, intuitively but clearly perceived that there was neither a strong political will nor a personal commitment to enforce the resolutions.

In my judgment, the Williamsburg Summit should have led to three precise mutual undertakings: the United States and Canada committing themselves to action aiming at a decline in interest rates; Japan committing itself to an opening of its economy; and the European countries committing themselves to a greater convergence of their respective economic and financial policies. These undertakings, supplemented by a strong and binding commitment to fight protectionism and to open a dialogue on energy prices with oil-producing countries, would have sent clear signals. Since they did not occur, there is a need to have a fresh look at the world economic recovery, after the Williamsburg Summit and in light of its shortcomings.

Indeed, there are greater indications that a steady recovery is currently under way in the United States, confirming a judgment already made in April. Industrial production has grown since November 1982 by more than eight percentage points, recovering more than two-thirds of the losses registered from July 1981 to November 1982. The latest figures available on the rate of capacity utilization, on orders of durable goods, and more broadly on advanced indicators confirm this trend. After increases, in real terms, at annual rates of more than 2.5 and eight percent respectively in the first two quarters of 1983, the GNP (gross national product) will undoubtedly register additional substantial gains during the second half of the year, and might well, as projected by the Organization for Economic Cooperation and Development (OECD), grow at a yearly rate somewhere between five and six percent at the end of the year. But will this recovery be durable and sustained and sufficiently widespread to cope with the employment problems which are plaguing our societies?

As far as the components of demand in the United States are concerned, there are some positive elements, such as the relatively low level of inventories and household indebtedness and the positive evolution of real wages, but at the same time, the high level of real interest rates, which presently stand at five percent

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against a historical level of two percent, and the present dollar exchange rate act as deterrents to exports and to productive investments.

Factors other than real interest rates, such as consumer demand, fiscal incentives and profitability, are important determinants for business investment, but a significant decline in nominal interest rates is awaited by markets as a signal of a sustained recovery. This issue is linked to the question of the U.S. budget deficit in a manner clearly summarized by Martin Feldstein: "If the Government continues to borrow 5 or 6 percent of the gross national product to finance its budget deficits, the real interest rate must remain high in order to squeeze private borrowers down to the limited amount of funds that remain .... Real long-term interest rates must be reduced by convincing evidence that the budget deficit in future years will be declining rapidly."[1] In the absence of any precise commitment by the United States in Williamsburg, I personally do not see how the present deadlock, under which the President wants a rapid increase of military expenditure, the Congress wants to protect social expenditure, and nobody wants seriously to increase taxes, could be overcome before the November 1984 election. It means that high real interest rates and a high real exchange value of the dollar, even if it is slightly reduced, might persist, thus hindering recovery forces presently at play.

But more fundamentally there is a risk that the international diffusion of the U.S. recovery will not take place according to usual patterns, which might in due course hurt the U.S. economy itself, even if it is less dependent than other industrialized countries on export developments. Traditionally a U.S. recovery has fueled exports of developing countries, increasing their orders of equipment goods from countries such as Japan, Germany and France, and the interdependence between European countries has led to a diffusion in Europe of these expansionary forces, thereby sustaining the world recovery.

This time, and due to the international debt crisis, developing countries will not be in a position to benefit fully from the U.S. recovery. They have undertaken major adjustment programs, which implies that their growth will most probably not exceed two percent in 1983 against an average growth of five to six percent in the past 15 years. Demand for equipment goods from oil-producing countries will fall substantially, as already indicated by Saudi Arabia, while real economic growth in East European countries, which averaged eight percent in the early 1970s and four percent from 1975 through 1980, should continue to be negative in 1983 after a contraction of two percent in 1981 and one percent in 1982. Therefore, the industrial countries have to count more on themselves than in the past to assure a lasting recovery. And the signs in industrial countries other than the United States are only moderately encouraging.

At present, the Japanese economy grows at a rate of about three percent, quite modest by its past standards, but the permanent competitiveness of its industry means that it would undoubtedly be in a position to be a full participant in a broad recovery of industrial countries. Thus the key issue is the problem of recovery in Western Europe—at a time when high real interest rates are hurting European countries, probably even more than the U.S. economy, since financial techniques developed in the U.S. markets to alleviate some of the effects of high interest rates (such as the widespread use of variable interest rates and of futures markets) have not yet materialized in the European financial markets.

[1] Martin Feldstein, Chairman of President Reagan's Council of Economic Advisors, "Adjusting the Dollar," *The New York Times*, June 2, 1983, p. A23.

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To be sure, there are some positive signs in Germany and in the United Kingdom. But there is no example in the past of a sustained recovery in Europe without a mutually reinforcing expansion both in Germany and France, two major countries with intense mutual trade relations. Such a coordinated expansion is probably out of reach in present circumstances. After a most unfortunate countercyclical policy in 1981 and 1982, France is engaged in a much needed adjustment program, with an uncertain timetable and an unconvincing overall determination to implement it, in view of the political contradictions of its present government majority. It is unlikely that it will be able to play a positive role in contributing to the present phase of recovery.

After the missed opportunity of Williamsburg, there is therefore a need for a collective discipline to be agreed upon between European countries, a matter on which the meager results of the Stuttgart EEC Summit in June cast evident doubts. However, the campaign for the next European parliamentary election, to be held in June 1984, offers an opportunity to impose on governments this much-needed sense of action. I launched the elections to the European Assembly by direct ballot; in my judgment, even if other internal political consequences might have to be derived from their results in some individual countries, they should fundamentally be used to give popular support to undertakings and policies for Europe as a whole.

As far as the 1984 elections are concerned, the major issues are the unification of the fundamental economic sectors, the impulse to be given to common policies, and the joint problems of defense and political unity of the continent which I address in my second Lecture. At the same time, I would propose that a clear mandate for a coordinated strategy aiming at economic recovery be given to the European Council, which I launched at the same time as the direct elections to the European Assembly; in my view they were the two pillars of future progress toward European unity.

The components of this strategy will have to be assessed in due time in view of the most recent developments in individual economies, but the overall aim is already clear. Countries suffering major imbalances would have to cut further their public expenditures while giving the proper incentive to the productive sector. Countries having mastered their price and balance-of-payments developments would at the same time give some additional impulses to their ongoing recovery. The coordinated strategy launched in mid-1984 would aim at having, at the end of that year, when the U.S. recovery forces might begin to dissipate, an ongoing collective recovery in Europe sustaining a worldwide expansion. At the same time, at the next summit of the major industrialized countries, the European participating countries, as a complementary element to their own action, will have to convince their partners of the need to take mutual reinforcing actions along the lines aptly described by Anthony Solomon and George de Menil in their excellent report on economic summitry or by Helmut Schmidt's prescriptions, which I basically support.[2]

During the same time, progress should be made toward addressing international monetary problems, and notably debt problems, in order to broaden to the world economy as a whole the recovery in industrial countries.

[2] George de Menil and Anthony M. Solomon, *Economic Summitry*, New York: Council on Foreign Relations, 1983; Helmut Schmidt: "Helmut Schmidt's Prescription: The World Economy at Stake," *The Economist*, 26 February–4 March 1983; Valéry Giscard d'Estaing: "A Communiqué for Williamsburg: For a useful summit," *The Economist*, 21–27 May 1983.

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III

The Williamsburg Summit ended with an ambiguous reference to an international monetary conference, stating in its final declaration: "We have invited Ministers of Finance, in consultation with the Managing Director of the IMF, to define the conditions for improving the international monetary system and to consider the part which might in due course be played in this process by a high level international monetary conference." As I see it, early strong movement toward a conference is not likely, especially in view of some of the comments publicly offered by U.S. authorities after the Williamsburg Summit. Since procedures should not come before substance, I had advocated, before the summit, a strategy of gradual steps—what I have called "a phased march" toward a new Bretton Woods. This gradual approach remains in my judgment appropriate, but special emphasis should be put in the coming months on initiatives to be taken at the European level as a contribution, or an alternative, to a wider international monetary agreement.

The first step would be to strengthen the role of the ECU (European currency unit) and the EMS (European monetary system), for three mutually reinforcing reasons. A strong European pillar is an indispensable component of any lasting international monetary system. It could provide for Europe an alternative if it appeared that no collective agreement could be reached at the world level. The promotion of the EMS is the best way for Europeans to induce the American authorities to assess better the international role of the dollar, as was demonstrated in 1978–79 when the launching of the EMS led the U.S. government to initiate a comprehensive program to bolster the value of its currency, at a time when relative positions were the reverse of the present ones.

The decisions to be taken to strengthen the EMS are well known: an extension to all European currencies, including the pound sterling; a consolidation and a broadening of existing credit facilities; more automatic intervention on exchange markets; and a wider utilization of the ECU which should become gradually a freely usable monetary instrument and an intervention currency. It implies, above all, a greater convergence in the economic policies of individual countries, since no system of stable exchange rates can function between countries with such differences in inflation rates and monetary aggregate developments. A collective discipline in Europe is at the same time a condition for a lasting economic recovery and for a viable international monetary system. The passage to the second phase of the EMS will therefore be a part of the coordinated economic strategy I will propose for the European elections in mid-1984.

The second step would then be to implement a "target zones" system between the ECU, the dollar and the yen. It would start with wider margins than in the EMS, but these margins would be reduced gradually. Since exchange rates are largely determined by domestic monetary developments, it would require mutually agreed monetary targets. Coordinated interventions by central banks would operate in support of this action.

It is self-evident that interventions cannot assure by themselves the stability of nominal exchange rates if they are not supported by effective economic policies, notably domestic monetary policies, aiming at a stability of real exchange rates. But interventions can avoid unjustified short-term deviations from basic trends and in addition can induce stabilizing forces on exchange markets. In the absence of interventions, speculative placements can shift from one currency to another on the basis of relative nominal interest rates, with a limited risk of seeing

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potential gains offset by an adverse move of exchange rates. The threat of intervention could induce more caution, through, for instance, a larger use of relative real interest rates or of covered interest rates, and therefore limit the impact of destabilizing capital movements.

After the effective functioning of this target zones system over two or three years—through what I have called a progressive "coagulation" of the system—the time would be ripe to address in a conference the question of the stabilization of monetary relations within a "World Monetary System" (WMS), which should place great weight on the need for stable, while adjustable, exchange rates.

In my judgment, these steps and the ultimate goal to return to a system of stable exchange rates should have been announced in Williamsburg. At a time when we see the end of the energy crisis, whose positive effects on prices and employment should mirror the negative effects of the two oil shocks of 1973–74 and 1979–80, a collective commitment to return to a stable international monetary system would have sent the clear signal that the world economic crisis was over, thus liberating economic initiatives to themselves contribute to the fulfillment of the prediction.

Since this has not proven possible and probably would not prove so before some years, let us take an approach based first on a joint European initiative, but without losing sight of what should be the ultimate goal.

The second major problem for which steps in the direction of a solution should gradually take place is the debt problem. In 1982, the fragility of the system, under which during the last 20 years international bank claims were increasing at an annual rate of 25 percent, was exposed by a series of major financial and political events: the debt crisis in Eastern Europe, in the wake of the Polish crisis; the debt crisis of Latin America, in the wake of the Falklands War; and bank failures in Europe and the United States contributing to the disruption of international financial markets.

These difficulties were related to a conjunction of events: a worldwide recession, a sharp fall in commodities prices, and high interest rates due to excessive reliance on monetary policies. But they also indicated more fundamental problems: a weakness in the structure of developing countries' debt with a pronounced trend toward shorter maturities, which implied great vulnerability to a shift in the attitude of commercial banks; an excessive reliance on the interbank market, highly sensitive to confidence factors; a problem of funding for nondollar-based banks, with the marked reduction in the OPEC surplus.

Under the far-sighted and decisive leadership of the Managing Director of the International Monetary Fund, it has been possible to overcome these crises in 1982 by an appropriate mix of adjustment policies, new financing by the Fund and the Bank for International Settlements, and additional commitments by commercial banks. Prompt action by all countries on the IMF quota increases is a vital element of this ongoing process, based on wider use of the Fund's resources. In addition, unexpected developments or difficulties in the implementation of adjustment programs (as exemplified by the Brazilian case) might well lead to renewed problems, and we should build upon the experience of 1982 to define a more systematic approach. Severe adjustment was obviously needed, but it cannot be a permanent solution for countries facing major development challenges.

The solutions are complex, since the indispensable confidence of lenders, most notably bankers, has to be maintained. This is why I do not believe in schemes based on massive refunding or on mandatory transfers of existing claims

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to a new international organization. Such a "political" approach ignores several basic factors, notably the very diverse situations of the borrowing countries, and the need to demonstrate their ability to restore in the future an adequate economic balance. One should think rather of mechanisms assuring a more rapid access to short-term liquidity provided by the BIS and the IMF, and of a market for bank claims with some participation by central banks, starting with the weakest element, which is the interbank market. In addition, a system of partial guarantees by multilateral institutions, acting in support of sound economic programs, might be contemplated.

There is a need to avoid past excesses in lending and at the same time to maintain an adequate flow of financing. Clearly, specific measures to proceed with the resumption of a reasonable growth of international credit cannot be determined only through the public representatives or through the private lenders, but require a joint approach and review. Hence my proposal to set up a small but representative international commission, including government officials and private lenders from different countries, and representatives from borrowing countries and multilateral institutions, to make concrete proposals on the handling of debt problems.

Developing countries are severely adjusting their economies, and their people need to know that their efforts will be fruitful. The annual meeting of the IMF and the World Bank should provide an opportunity to display a collective endeavor both to give adequate resources to multilateral institutions and to address more lastingly the problems of developing countries.

If it were possible to launch action in the direction of stability of exchange rates through a European initiative, and to give an adequate answer to the debt problem, major steps would have been taken in the direction of a new Bretton Woods conference which should be the end and the culmination of such a cooperative process.

IV

While the conditions for a sustained economic recovery in the world and the possible steps in the direction of a new Bretton Woods conference are for obvious reasons the most widely discussed topics in international economic circles, they should not make us lose sight of the long-term and fundamental problems which are confronting us. Clearly their solution will emerge from the collective evolution of our diversified countries and not from official prescriptions. But there is a need to have a fresh look, in view of the most recent developments, at the key elements of long-term growth and prosperity in the world: population and employment; natural resources and energy; new technology and capital formation in the framework of expansion of international trade.

I intend to come back to the fundamental problem of employment, which has economic, social and cultural dimensions, when addressing the challenges facing our democracies. At this stage I will offer only some preliminary remarks on what could be the scope of a joint assessment of issues that the world is collectively facing: the structural aspects of the crisis.

Natural resources and energy. The availability of natural resources is a major component in long-term growth. It has been one of the merits of the Club of Rome, and the Meadows study, even if many of their fears were probably unfounded, that they introduced into the public debate and into public policies the associated questions of natural resources and of environmental values. It is

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an area where additional progress is needed to reconcile the desire of producing countries to get predictability and profitability for the prices of their products and the desire of importing countries to protect the role of market forces. Discussions are under way at the EEC level with the coming renewal of the Lomé Convention with associated countries, and discussions are still going on at the world level on the Common Fund, and I do not want at this stage to do more than to stress their importance.

The focus on energy issues is an example of the contribution of international cooperation through the summit process as has, again, been lucidly described in the Council on Foreign Relations report.

After the first oil shock, the United States maintained a perverse policy of control of domestic oil prices which implied a subsidy given by domestic producers to oil imports, a blended price for consumers lower than the world level and an associated overconsumption, and an absence of incentive for exploration and drilling. The undertaking by the U.S. President at the 1978 Bonn Summit to decontrol oil prices, an undertaking fulfilled by President Carter in 1979 under a timetable later accelerated by President Reagan, has made major contributions to a better world energy balance: a resumption of oil production and exploration in the United States; a decline by five percent in the energy/GNP ratio in the United States; a decline by one-third in U.S. oil imports. After the second oil shock the coordinated answer given by the 1979 Tokyo Summit, with undertakings on maximum oil imports, was also an important contribution; we have now a manageable world energy situation where demand is compatible for several years with the present level of OPEC productive capacity.

But the breathing space thus obtained should not be used for complacency. We have to build on a sound basis our long-term dialogue with oil-producing countries. But we have, as well, to maintain our efforts to reduce our dependence on oil imports, since the medium-term political vulnerability of the Middle East remains and there is still a long-term need to shift from an oil-dominated energy picture to a more diversified one. This means that consumers should not get wrong signals from market prices (which raises in some countries the question of additional taxation), that all producer prices and notably the price of natural gas in the United States should reflect world prices, that obstacles to the development of coal production and nuclear energy should be removed, and that adequate financial incentives should be given to long-term projects such as synthetic fuels and solar energy.

Innovation, capital formation and trade flows. The second fundamental element for which some joint approach is needed is the problem of innovation and capital formation in the framework of increasing trade and capital flows.

To be sure, high-technology industries will not directly solve our problem of employment. According to a Data Resources, Inc. study on the U.S. economy, high-technology industries will see their output more than doubled in the next 15 years (against an increase by about one-third for manufacturing), but in view of their small share and their rapid productivity growth, jobs in these industries will stand at only four million against more than 20 million in the rest of manufacturing and more than 50 million in trade and services.

But they will provide a large demand for highly qualified jobs, consistent with the projected educational level of our young people, contribute to a higher rate of productivity growth, which is the key to living standards, and leave room for a decline in traditional industries where jobs in industrial countries are displaced by the exports of newly industrialized countries.

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On this, I must add, because I do not want to be misunderstood, that it is very important for our countries to keep a very broad base of industrial production. The idea of a general evolution toward services or high-technology activities, in isolation from other industries, would be a historical mistake. We need to keep on our soil, your soil, the soil of Western Europe, a large part of the industrial ability to produce general industrial goods. It is not by direct public support that we can solve this problem, but certainly the general environment, the tax policy, the credit policy must be adequate to this goal, which is to keep a diversified, living industrial sector.

Neither can an adequate promotion of high-technology industries depend on undue government interference. We all have in mind examples of state-owned industries where the unpredictability of future financial resources, the absence of adequate reaction to market signals, and the lack of incentives through competition have combined to hamper technological developments. Governments should confine themselves to maintaining an adequate economic environment based on competition, to granting adequate incentives to industry-based research, and to financing fundamental research and seeing to it that its results are readily available to private industry.

But nevertheless, in view of the magnitude of the challenge and the need for international cooperation, I see merits in the idea of some general discussion of major technological problems between summit countries, provided it does not pave the way for a bureaucratic approach to problems which belong to the industry itself. Clearly our market economies and our Western world still have the technological leadership and the aptitude to promote it.

The promotion of technology will imply additional financial requirements on top of those required by traditional manufacturing, housing, and infrastructure, and those required by a forceful energy program. Associated with this, there should therefore be an effort in each industrial country to promote saving, through price stability, an adequate tax structure, and competition between financial intermediaries, and to channel a large part of it toward risk capital and industry financing.

If we succeed in such an endeavor, we will be in a better position to address the difficult question of trade. It is self-evident that the international division of labor benefits all of us and that the key for the development of many developing countries is access to major markets for their products. At the same time, in a period of low growth and rising unemployment, governments in industrial countries are not able to master the everlasting demands for protectionist measures. We all know of examples in the United States, in Europe and in Japan of such moves which under different names, notably self-imposed restrictions, have the same adverse effects on trade, growth and future employment. And, most unfortunately, in spite of the Williamsburg pledge, recent actions such as the quotas imposed on European specialty steels by the U.S. government show that protectionist forces remain very much alive.

A sustained recovery is clearly the fundamental condition for a resumption of trade liberalization which has shown and will show how it can amplify growth and spread its benefits all over the world. If a broadly-based recovery is well under way in 1984, the time might be ripe to launch internationally an initiative on trade which will complement the initiative on technology. It is too early to define it more precisely, but it could include additional access to industrial markets for LDCs' goods, the abandonment of some projects in industries with long-term excess capacity such as the steel industry, and the refining and

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petrochemical industry, and the promotion of exports of capital goods through adequate financing schemes. If we have been able to resist protectionism during the crisis, it would be a major failure if we were not able to overcome it when the crisis is receding.

Let it be my hope that more convergence between European countries may lay the groundwork for new European initiatives to address jointly with other major countries these long-term issues on which our future depends.

Current Problems In International Relations

My topic in this second Lecture will be international relations, mainly in the light of transatlantic relations between the United States and its Western European partners. Most of the economic questions I dealt with in my first Lecture play, of course, an important role in these relations. But they are only part of a global picture in which ideology, politics, strategy considerations, and reactions of public opinion are also of utmost importance. Therefore, transatlantic relations need to be considered in the broader context of the competition between two geopolitical systems, the Western liberal democracies and the Eastern entity led by the U.S.S.R., two systems which have entered a new period of tension, this time mainly concentrated on Europe.

There is a trend in the United States today toward focusing less exclusively on Europe and showing more interest or concern about other areas, such as Asia or Central America. This might be partly the result of the drift of your society in the direction of the West Coast and the South. But it occurs at a time when the Soviet Union concentrates its efforts on Western Europe. In Western Europe, there are new trends which might be dangerous for our common interests—the pacifist and neutralist movement in Germany (which Chancellor Kohl's victory should not obscure), in the Netherlands, in Scandinavia, and even in France, which has shown more response to pacifism recently than in earlier periods. Also, there is a different approach in analyzing the Soviet situation and the growth of a certain anti-American feeling. All these elements indicate that it is time to think about a common attitude toward East-West relations, about a shared responsibility in North-South relations, and about new initiatives for Western Europe in order to achieve a better balance in our Western world.

II

The process of détente, which started around 1970, has now been practically interrupted. It was based on a balance of forces and a certain understanding of common interests which have nowadays been reduced. Everybody has become conscious, or should have, of the Soviet military threat, which is now permanent and diversified. But we are also aware of the economic weakness of the Eastern countries and of the contempt of the leaders of the U.S.S.R. for human rights. At the time of Helsinki, now eight years ago, we could expect that our continent could obtain security, foster development and progress in standards of living by commercial and technological exchange, and achieve serious progress in human

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rights, freedom of information, and free movement of people. Some results were achieved in the following years. But at this point in time, this evolution has deviated from its course. Today, Western Europe's security is jeopardized, East-West trade is hampered, and the eastern part of our continent is a zone which some of its nationals want to leave, whereas our part of the world is a zone where foreign migrant workers long to stay. Obviously, the main objective of the U.S.S.R. is again Europe, after various Third World undertakings, with uncertain success.

What the Soviet Union would like to achieve is not a military invasion and occupation of Western Europe, but what is called, in an inappropriate term, and an inelegant term, "Finlandization" of Western Europe. It is inappropriate because the Finns resent it very strongly since they are trying to keep their own personality and independence. The word "Finlandization" is something which deeply hurts them, and which is certainly not the proper one to characterize the inability to resist any military, or even political, blackmail. But the desire of the Soviet Union to create such an inability, using various leverages such as inter-German relationships, is a reality.

It is strange that so many Europeans do not have a clear perception of this present menace and express more fear of the arms which will protect them tomorrow than of the arms that threaten them today. For some Europeans, the American military presence and strategic deterrence, which appeared yesterday as a safety to our security, are now labeled "risk." People want peace without effort, not understanding what is at stake. The fact that modern armament, mainly nuclear devices, has become an area reserved to specialists may have diluted the traditional link between the people and their defense or their army. European masses seem sometimes less concerned with their defense and to be putting emphasis on other values. Everyone knows the expression, "Besser Rot als Tot" ("Better Red than Dead"), which was used by some German youth and older people too. Our common preoccupation, therefore, has to be: should Europe be defended? Can it be defended? And does it want to be defended?

It is obvious that Europe has to be defended, and in the present situation, to reach the desirable high level of security, we cannot stop or lessen our efforts to achieve a modern and strong defense. This is a reason why we approve your efforts to work toward this vital objective, even if the cost is high. We do also have to stress our political will, to do what we can for the protection of our continent. And I would like the European countries to speak with one voice on this matter of the utmost importance. I was, for instance, very disappointed that the European countries were not able to answer the questions raised by President Reagan or by Vice President Bush, in February of this year, when they said that they were ready to study any proposal or suggestion concerning the deployment, made by the European countries themselves. I think it was a historical occasion that the European countries let slip away.

In this perspective, the progressive deployment of the Euromissiles is an undeniable element of our security and of a balanced situation in Europe. But let's not forget that the rationale of this armament effort is to realize a true balance of forces and not to stress the search for superiority. We should, therefore, maintain our concern for security and keep our armament effort on the borderline of negotiability with the other party. In the field of Euromissiles, it means that the confirmed will for their deployment, which has been adequately expressed in April by Mrs. Thatcher and Chancellor Helmut Kohl in London, should be combined with a phased program of implementation and an affirmation

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of the possibility for the U.S.S.R. to enter a negotiation at different steps.

This is a complicated technical problem, but I will insist on two points. First, negotiability, which is at the core of discussions about arms control. Clearly, we should not eliminate any option if this option is needed, solely because the Soviets declare it nonnegotiable. But, on the other hand, when a proposition is presented as being open to negotiation, a precise evaluation of the negotiability value is necessary. For instance, I personally think that the most recent proposal, to have another single level of deployment on both sides announced or chosen before the deployment, has a very weak value of negotiability.

It seems to me very important when you speak of negotiability to transfer the possibility of negotiation from what I will call the "ante-period" to the "post-period" of deployment. At the moment there is still the idea that there could be useful negotiations before the deployment. There is not a single chance to succeed there. In fact, insisting on this possibility reduces the credibility of the negotiations. So the move, the change, is to show that first there will be deployment, because now the conditions not to have it will certainly never be met, but after the start of deployment, then the will to negotiate will go on, taking into account the further phases of deployment.

My second point is the very important question of the treatment of independent European nuclear forces. In SALT I and SALT II, it was decided that the British and French strategic forces were not to be included in SALT discussions. In 1979 and 1980, when there was the discussion on the deployment of the Pershing II and cruise missiles, I refrained from taking a public stand because I thought it was impossible for us to take part in a decision which did not concern us because we are not among the deploying countries—and at the same time to affirm that our nuclear forces should be kept out of the negotiations. So my view was to support privately, with the American President, the British Prime Minister and the German Chancellor, the decision for deployment and to tell them we would take parallel steps, such as the development of a new French missile, the S3, which will parallel the deployment of the Pershing. Recently, this position has been changed, and there was an official French expression of support for the deployment. The response by the Soviet Union was predictable: the inclusion of the French and British strategic forces in the negotiation.

This is unacceptable to us for a simple reason. Our nuclear system is intended for two purposes: one, to be used with the allied system in case of a general confrontation, but the other purpose is to be able to match a direct threat by the Soviet Union to ourselves—blackmail, or pressure, or a threat—by the ability to inflict upon them a very damaging strike. So, we cannot enter into negotiations in which our nuclear system will be reduced just to match the intermediate missiles of the U.S.S.R. Because if there was a confrontation, or a threat by the Soviet Union, it would be a threat by *all* the strategic missiles of the U.S.S.R. They will not say: we will use only the SS-20. They will use all their systems to frighten us. So, we must have an evaluation of our strength which is not calculated only by the medium-range missiles, but by the whole strategic Soviet system. Thus, we have to stress that it is impossible for the French system to be included in the INF negotiations. For the immediate future, we should have to keep the level of our deterrence at at least the present level, and it is only in the case of a significant reduction in the global strategic level of the U.S.S.R. that we could enter into a negotiation. It is an area where developments in recent months have brought at the same time some plusses, with the Williamsburg Declaration recognizing the special character of independent nuclear forces, and some

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minuses, with the Soviet proposal to freeze such forces; it will remain a major concern for all those attached to a strong and independent Europe, within the Atlantic Alliance.

Whatever our common determination is, we certainly cannot give up hope of a better and more relaxed future for East-West relations in Europe. So the present necessities should not prevent us from expecting that détente might be revived one day, when necessary changes have occurred in the minds of the new Soviet leadership. But in the Western world, there remains an important divergence between those who favor economic and financial pressures in order to bring the communist system to its collapse, and those who think that this policy has proven an illusion in the past, that the Russian people will react to it by sticking closer to its leadership, whatever the hardship might be, and that a change in the regime, which is of course one of our objectives, can only be the result of a slow, long-term and complex evolution.

It is a fact that if we are at this time vulnerable in terms of security, Eastern Europe remains extremely vulnerable in terms of its economy and way of life. Western Europe is more than ever attractive for the various countries of the eastern part of our continent, both for the peoples who long for better living conditions and more freedom—and who have shown this dramatically, for instance, in Poland—and also for the governments which expect much from our technology and from our production to palliate the shortcomings of their centrally-planned economies. Our European agriculture produces enough to feed our own people, and in addition, much of the population of these countries where collectivism has proved unable to provide enough appropriate food. Therefore, I do not think that we should be shy in demonstrating our superiority in this domain, especially as the East European market might be an important element in the recovery of our own economies.

In the recent past, there has been excess in lending. There is now excess in the opposite direction. Of course, we must discuss a common approach to limit energy dependence and to control technological transfers more effectively, which are justified aims. We should also study a reasonable policy for granting new credits under proper terms to these countries, which already have heavy debt burdens and are in the process of severe adjustments, in several cases under IMF programs. We should, using our financial leverage, encourage the trends toward economic reforms, which should bring more decentralization, more openness, and more market forces into largely closed systems.

Our recognized goal—which might seem very illusory to some of you, but my experience with Poland and with Hungary has given me some demonstration of the contrary—should be to increase our economic attraction for Eastern Europe, to create an effect of economic Finlandization. Instead of being only afraid of the military and political pressure coming from the East, we should have a symmetrical pressure coming from the West through a rather sophisticated and complicated policy increasing our economic attraction and, perhaps, presence. Finally, we should also remain firm on human rights, while maintaining a balance between the necessarily discreet diplomatic handling of some individual cases and the need to stress the global problem by public criticism and political discussions.

III

In the mid-1970s, there was some hope of seeing the relations between the developing countries and the industrialized world start on a new base and of

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obtaining positive results in pursuing the North-South dialogue, which we started in Paris in 1975. Today we are, on the contrary, faced with a blocked situation. There is certainly a need to find a more pragmatic approach to a problem which remains one of the most dramatic of our time and where the capacity of the Western world to respond to the needs of the South and to contribute better to the realization of its potential is challenged. The communist system has already shown its inability to adapt its programs to the conditions which prevail in developing countries. Let our imagination, our will, and our much more flexible system demonstrate that the liberal world can cope with the problem in an efficient way.

The developing countries appear generally as a unity, even if the nonaligned movement cannot hide political differences and even conflicts among its members. It is not our purpose to challenge this apparent unity of the Third World, but let us make some distinctions for analytical reasons.

The first group is the group of oil-producing countries. They are facing a completely new situation, which will have, if it endures, long-lasting effects not only on the world energy market and on our economies, but also on their own development and on their participation in the various financial circuits. More than ever, the Middle East oil sources remain vulnerable, mainly because of political factors which could have a serious impact on our regular supply. The world economy has been and still is under the destabilizing effects of the erratic movement of oil prices, of the debt problems of some of the most important oil exporters, including those in Latin America, and of the drastic change in the reserve situation of some of the major countries. It seems to me that the *time has come for a new dialogue with these countries.* This feeling is shared by Helmut Schmidt, who declared recently that "when the heads of governments of the industrial world talk to each other at top level, they should envisage follow-up talks at top level with the major oil-producing countries, too."[3] In Rome I had made some proposals toward achieving some kind of long-term assessment of oil prices, which could be in the common interest of all of us. Without prejudging the exact content of this dialogue with the oil producers, there is a need to open it without delay, to review the energy situation, oil prices and their economic consequences which should be a mutual concern.

I do believe in the superiority of dialogue over an attitude of open conflict. You remember that, in the winter of 1973–74, there was the beginning of a confrontation between the oil-producing countries and the consuming countries, with measures of retaliation and some threats against them. It was a possible way, but I did not believe in it because among the oil-producing countries you have many friends of the West. So to enter into a confrontation would have been very dangerous, because we could have destabilized one or two of our potential friends in the area.

For instance, it is fair to say that in the last years the Saudi leaders have had a moderating influence on the energy prices. They avoided an excess in prices and they avoided also the collapse of the market, so they had a responsible attitude. And I thought that jointly we could try to encourage some of the rational or pragmatic attitudes and discourage some of the excesses.

I am always trying to put myself in the place of others. For instance, when I thought of another head of state, I always tried to imagine where he lived and to understand his feelings, which is always very difficult. The developing countries are absolutely convinced that we do not care about their problems and that

[3] "Helmut Schmidt's Prescription: The World Economy at Stake," *op cit.*

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we are just showing polite interest to avoid aggressive attitudes on their behalf, but that we are not really interested in proposing or enforcing solutions. And indeed, we are giving a very clear demonstration of this: when the price of oil was moving up, all the Western leaders were saying that the price of oil was a question of mutual concern calling for consultation. But now when the price is moving down, we say that it is not a concern for anyone. We are waiting for the decrease in the price of oil, which is cutting incomes in oil-producing countries, stopping their investments, hampering some of their financial resources. So, if we want to convey a feeling of world responsibility, since we asked to discuss the consequences of the increase, we should propose discussing the consequences of the decrease. This does not mean that we should look for a joint unified price—the market forces will come into play—but we should review long-term prospects for alternative sources and try to envisage what the global energy picture could be in the future.

As far as the *newly industrialized countries* are concerned, most of them being located in Asia and Latin America, they will benefit the most from a world economic recovery, provided they find outlets for their production. The combined efforts made by industrialized countries in the field of new technologies and trade should find useful applications there. Some of these newly industrialized countries have to face a major debt problem, and we should now build upon the experience of 1982 to define a more systematic approach, such as the one I proposed in my first Lecture. It is certainly necessary to handle the debt problem in a coordinated way, both to give these countries some relief in the debt servicing and to maintain an adequate capital flow. The World Bank and the International Monetary Fund should be involved in this effort, while multilateral guarantees could be sought for private lending and direct investments; a specific effort should be made on energy projects.

For some *low-income countries*, there is a fundamental need to increase official development aid, which is the only regular reliable source of financing most of these countries can count on. In recent years, the world economic crisis has heavily affected these countries, the prices of their commodities, the cost of their energy supply, the volume of foreign aid and investment. Some of them are in a most dramatic situation, for instance in Africa, where climatic circumstances have added to their difficulties. I think that in the common effort to share in order to help these countries overcome this crisis, the United States should have a more positive attitude, in better accordance with your possibilities, with your tradition and with your philosophy. Low-income countries are forgotten in the world of today, since their economic importance is limited. But they will be the test of our ability to cope with situations which are not directly linked with our personal interests.

These new efforts in favor of the low-income countries should be coordinated, as we started to do when we created, at my suggestion, the Coordinated Action for Development in Africa (CADA). We need to address jointly some of the fundamental issues: basic needs, food and agriculture; population policy; stabilization of prices of commodities and compensation for shortfalls in export earnings; and diversification of the economic base. For instance, it is a historical mistake for the European countries and for the United States not to embark on a large program of development in Africa, which would not be very costly and which would probably change the balance for this continent for decades to come.

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IV

Let me now speak of a new start in the construction of Europe, as a balancing factor for the Western world.

European elections to be held in 1984 will be the next and best occasion for European leaders, parties and people to express themselves and to show their capacity to give Europe such a new start. It is true that the faith of the Fathers of Europe has vanished and that the European Community has evolved into a bureaucratic institution with too much bureaucracy and too little imagination. During the last five years of the 1970s there were a number of achievements and an effective impulse was given to the existence of a political Europe by the setting up of the periodic European Councils. But later, in 1979–80, we entered a pre-election period, and no significant progress has been made during the last three years.

So I agree with some statements and I share the disillusioned view of Europe's absence today. It is probably one of the periods in recent history in which European countries are most silent and give least impulse to new proposals or new achievements for the Western world. But I think the time will come for a new start, which would consist in seeking more unification of the fundamental economic sectors, giving impulse to existing common policies, and taking a new approach to the joint problems of defense and political unity of the continent.

I remind you of the statement which was made in 1972 by the Paris Conference of the European heads of state, which declared that 1980 would be the final year for the union of Europe. We are now in 1983 and are still without any significant move toward unification, as demonstrated by the limited results of the European Summit in Stuttgart, where Chancellor Kohl was unable to get adequate backing for his European initiative, modest as it was. In various fundamental economic sectors, like energy, transportation, communications and telecommunications, and financial services, I suggest that we should tend toward large unified European markets where private operators could compete freely. It would need serious measures of deregulation—the United States and the United Kingdom have been taking some in recent years.

In the field of energy, we could think, for instance, of a closer integration of electric grids, the establishment of gas and oil transportation networks considered in the perspective of the global market, the joint development of major projects, like exploitation of the North Sea gas reserves, and common objectives for energy imports.

To give a new impulse also to already existing common policies and define new ones, let us have a review of the Common Agricultural Policy, where real unification should be sought. My proposal would be that, in the future, the level of prices should be indifferent to exchange rates. We should accept that our national economy, when we devaluate, or when we reevaluate, supports the cost of the change. It is a technical point, but it is a fragmentation of the market if every time we change an exchange-rate parity in Europe we restore for agricultural products a tariff barrier, the so-called "monetary compensatory amounts." We should also give consideration to a policy for Mediterranean products, now that the Common Market has to envisage the membership of Spain and Portugal. And we should also better affirm the legitimacy of our policy with a clear and far-reaching debate and discussion with our American partners.

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In the field of research and technology, we should consider funding projects and joint endeavors by and between industrial firms, especially in the domain of biotechnology, where Europe has the capacity to develop into a major partner for American and Japanese research and industry. We should also, which is more complicated, devote effort to establishing a coherent common social attitude with a view toward harmonizing labor legislation, and to addressing jointly the most difficult sectoral and regional employment problems.

Finally, the time has come for a new approach to our problems of defense and political unity, to which I would have devoted a large part of my time in the last two years if I had been reelected. I thought that it was too early before to do so for various reasons, but I thought that the time was ripe now to envisage the possibility, the risks, and the challenge of some initiative for European defense. In 1975, Germany and France decided to build a tank—a Franco-German tank—which would have been unique and built half and half by France and Germany, and I regret to have seen this project recently cancelled. Because a closer integration in the field of armaments could have probably led to joint projects and to more interchangeability of equipment.

Some European countries, France and Italy for the moment, are already cooperating in the emergency peacekeeping forces in Beirut. Why could we not think, for example, of setting up jointly with the other Europeans and, notably, the British, who have some parallel activities in Lebanon, a European rapid deployment force—the ERDF—with a permanent staff and coordinated logistics, which could be used for peacekeeping purposes and for emergencies without having to call for separate European countries to act. And of course we should have an altogether fresh look at nuclear strategies—and it is one of my regrets—I've mentioned this before—that the beginning of this year was not used to make a counterproposal, a suggestion, to the American Administration, concerning the way to deploy in Europe the new intermediate missiles.

In the parliamentary field, which will be more exposed during the next year because of the perspective of the 1984 elections to the European Parliament, why not establish a new mechanism for reaching better harmonization among European legislations? At the moment there is the question of the role and the responsibilities of this Parliament, and there is a conflict between the executive branch and the parliamentary branch over drawing the line, but why not set up a kind of legislative shuttle between the national parliaments and the European Parliament, to progressively create a harmonization and then some unification of the legislation in sensitive fields? Finally, we should also think about other measures which would strengthen the political powers of the Community—for instance, by progressively changing the rules which require unanimity for all important decisions; and by progressively giving room for normal votes by qualified or single majorities; and by having a new thought about the presidency of the Community, which is now a rotating responsibility with little impact on international life. There are ways which could be suggested to change the importance and the efficiency of this presidency.

I really believe we should give Europe a new start in order to react to three potential threats which have developed in recent months: West German neutralism—not the neutralism of all Germany, but forces of neutralism in Germany; the French tendency to protectionism; and British particularism. And if we could embark on a significant move it would be a major contribution to a better balance of power and to a closer understanding in transatlantic relations, which are really the pillars of world equilibrium.

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Recent Trends in European Democracies

This last Lecture refers to recent trends in European democracies. It will be, I suppose, a new and somewhat disturbing approach to the political problems for some of you, but I think that the way to envisage those problems is really fundamental for the future of politics.

All our democracies share common goals and common features, but at the same time each of them has its own particular characteristics. I will not, therefore, address the recent evolution of U.S. society, but focus on European democracies. To be sure, recent developments in Europe must appear to a U.S. observer as contradictory and puzzling. For instance, conflicting electoral results in recent months, with the victory of the left in Spain and Portugal and its defeat or retreat in Germany and Austria; contrasting economic policies between EEC countries leading to periodic gatherings of their finance ministers to adjust their exchange rates accordingly; contradictions among crosscurrents in the same country. The various temptations of neutralism, terrorism or anarchy are often present. But the overall commitment to a common European vision of modern democracy—a new "Weltanschauung"—finally prevails. It is this new vision of European democracy that I would like to discuss with you under three headings: the challenge of intense cultural and social change; a new dimension in political leadership; a new approach to long-term problems.

II

In recent years, a fragmentation of the traditional society has taken place in Europe. There is, at the same time, a quest for new individual liberties and for reference to the past, what you have called here the "Roots" phenomenon. The young are bringing into the public debate the new themes of environment, human rights, and truth and morality in public life. The citizen who traditionally had only two dimensions—his work and his multigeneration family—is more and more part of a diversified network of associations or groups through which he develops his aspirations for travel, culture and information. New structures have appeared with the rapid evolution of our educational systems and the emergence of new types of family relations. Women are playing an ever-growing role in the work force and in the political debate. An awareness of problems throughout the world and of international tensions is present in day-to-day decisions.

But, when one looks at the various tendencies present in different measure across the borders of Europe, four fundamental trends emerge. First, a move toward autonomy and informality. The quest for personal expression is now one of the most powerful currents, and the rejection of authority and social constraints is still a very important force that has emerged in the last decade. But what is curious to note is that in the last three or four years, one detects a more open attitude, rejecting the most radical stance and accepting some kind of modernized leadership.

A second feature is a move toward intuition and emotion, with the decline of rationalism or moralism, and more broadly of ideologies in general. To be more specific, a political campaign in Europe cannot be won now through rationalism or the quality of argument. It is through emotions, through a more intuitive approach, which was used, for instance, in the last French presidential campaign.

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At the same time, introspection, femininity, a sense of the potentialities of time act as substitutes for former rigid ideologies.

Third, there is a move toward a new modernity, which started with the rejection of a society dominated by consumption, or a society manipulated by the media and advertising, and which is evolving now in the direction of a new realism.

And the last feature, which is very curious—all this is based on long studies and not on my personal judgment—is a move toward complexity and uncertainty, which is the recognition of the integrated world to which all societies belong.

These fundamental movements have been supplemented by technological changes in the gathering and the transmission of information. The modern media (TV, cable TV, satellites, individual computers, video tapes) add to our societies the new dimensions of instant information, permanent dialogue and added selectivity in choices.

I would like to give you some figures showing how these new trends affect a country like France. Between, for instance, 1974 and 1981—my presidential term—the change in certain aspects of French society has been dramatic and not at all in the political field. For instance, in 1981, 17 percent of the persons interviewed, which corresponds overall to 8.5 million people, expressed the view that they were more sexually liberated now than seven years before. Another example, in the same period in which there was dissatisfaction with the crisis, ten percent of the population, that is, about five million people, expressed the view that they were more satisfied with their lives on the job than they were seven years ago.

So the reactions of the population are very different from what one expects. And also, this evolution is faster in the segment of the population in which one probably would suppose that the evolution would be slower. For instance, in this period, the fastest evolution was for the French people having only a primary education; for the industrial workers, for the retired people, for the men between 50 and 64 years, and for women. On the other hand, this evolution was slower for the students, the executive people, and the people less than 20 years old. For instance, the need for personal expression increased by ten percent in the working class and fifteen percent among farmers.

To understand these changes is to understand the very structure of the society. French society is a society in which the extremes are moving faster than the middle, and they are moving toward the middle—toward the behavior, the attitude, the cultural position of the middle. So we are not at all a radicalizing society; we are a society with a deep movement of convergence.

III

These new dimensions of the citizen (better informed, more educated, and with greater aspirations to the full recognition of his individual rights and individual expression) have to be taken into account by the political leadership in its three main functions, which are for me the three functions of modern statesmen: to listen, to decide and to communicate.

First, to listen. The very nature of democracy, and its unchallengeable superiority, is having the final decision in the hands of the citizen who, at election time, indicates if and when he feels that his message has been sufficiently listened to. To listen is not easy. The amount of information received by political leaders is increasingly vast and it is necessary to discriminate between that which carries

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fundamental messages and that which is transitory and contradictory—more noise than information. The intervention of the media and the wide use of polls allow citizens to participate in a kind of direct referendum—a kind of Swiss referendum—on every type of subject and without a proper institutional channel. Hence, the tendency toward excessive personalization of power, abrupt changes in policy formulation or implementation, and temptations to bypass the whole institutional system through demonstrations—for instance, the marches for peace—or even their perversion by direct action, like terrorism. Thus, the ability to listen to the ongoing change might well become the fundamental characteristic of political leadership in modern democracies.

The second function is to decide. Decision is the essence of political leadership and the major difference between political leaders and intellectual leaders, whom I highly respect and praise, and who analyze or judge. A leader is a mechanism built to decide, and all that he receives is at the end translated into a very simple act, which is to say "yes" or "no." We are watching what I would call "democracy in real time"—this is a use of the language of computers—under which now, through the media, the event, the reaction to the event, the decision-making process, the decisions, the reactions to the decisions of various groups, are simultaneously transmitted to the citizen and assessed by him. It might well be that our present democratic practices are not fully consistent with this evolution. At a time when society has to be conducted with flexibility, by a series of mutually reinforcing impulses given without delay, the discontinuities which are inherent in the election process might appear to the historians of the future as an anomaly. Hence the need, perceived in many European countries but without significant success up to now, to try to engage in a bipartisan dialogue where long-term issues are collectively assessed, while the final decisions clearly lie in the hands of the elected political leadership.

And the third function is to communicate. The political leader has finally to be able to communicate, which means to deliver his own message not only to a small group of other politicians or intermediaries or experts but now to each individual citizen at his home. This function is in itself complex, diversified, frustrating and evolutionary. It will dominate the procedures of selection of political leaders, who will become increasingly judged according to a dual standard, with different criteria: the ability to conduct the society through permanent changes and also the ability to communicate to the citizen the goals to be reached and the path to be followed to reach these goals. Communication for a political leader is not only a question of words to be transmitted but also of acts and decisions which are perceived as symbols of the direction in which our societies have to engage themselves.

It is, I think, a very important and historical change. Henry Kissinger said, or wrote, that the leaders of the world are less and less selected according to their ability to govern; they are selected by other criteria. And we must admit these two dimensions of the political leader. We must not fight against it—it is a fact—and in the past there were such situations. For instance, in the far away past, a leader usually was required to have two abilities: military ability and governmental ability—Caesar, Alexander, Napoleon. A modern leader must have two abilities: an ability to govern and an ability to communicate. And an ability to govern will not be recognized in modern times without the ability to communicate.

And if we accept this, then each one must prepare himself for it by an adequate training and preoccupation. The risk is that the second criterion will one day

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surpass the first one and that people will be mainly judged for their ability to communicate. This was expressed by some articles in the American press which I read recently. I don't think we will go to such extremes; these extremes existed always. It is a problem to fight against a demagogue, but our societies will probably respond to this by the multiplication of the communications networks and probably through a diversified structure of communications. It will be perhaps less easy to be judged on your ability to communicate just through one single medium, which is for the moment mainly, of course, image.

IV

These new trends in European democracies—deep change in the society, deep need for communication—should lead to a new approach to the long-term problems that our societies are jointly facing.

1. *The need to focus more on long-term issues.* During the last ten years of what we called the "crisis"—which is a code name for a number of interrelated changes in technology, behavior, energy consumption and production patterns, international relations, and domestic and external monetary developments—profound changes have occurred in private enterprise management. I will just mention these because you know them, often more than I do: new types of decision-making based more on discussion and openness; an accent put on reducing vulnerability to random events, which implies ability to change a strategy rapidly; the dismissal of five-year planning, in view of growing uncertainties, and an accent put, on the one hand, on the short term (revolving plans for two or three years) plus, on the other, an in-depth consideration of a few salient long-term strategic issues over a ten- or twenty-year horizon. Through these changes the market economies and the private enterprises have continued to demonstrate their superiority over centrally-planned economies.

But, curiously, the same changes have not taken place in the conduct of economic affairs of governments, which rely basically on the same instruments, on the same methods, and on the same procedures as ten years ago. In my judgment, progress should be made in three directions:

—To achieve more stability and more predictability. For instance, the lags, the delay, in monetary and fiscal policies, have had countercyclical effects, which suggests that additional caution is necessary in using these instruments. We should rely more on medium-term monetary targets and on predictable fiscal policies, while strengthening, by deregulation, market forces, with their built-in stabilizing effects.

—To introduce into these policies a greater degree of adaptability. In fiscal policy there might be a case for giving the executive some added flexibility in adjusting tax rates to the current economic situation. In monetary matters, international cooperation on interest rates and exchange rate management—combined with some fixed references—would provide a more predictable framework while allowing at the same time rapid changes. And finally, as far as incomes are concerned, there might be lessons to be learned from the German experience with what they call "concerted action," which links the adjustment of wages to the global economic outlook.

—To develop a long-term strategy. There is a need for governments to focus more and more on long-term issues which have been neglected in all our countries, like, for instance, social security, employment trends, education,

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and research and technology. Of course, the absence—the total absence—of short-term rewards and the importance of short-term pressures explains everywhere the political indifference or desire not to be too directly involved in these difficult issues. Hence, a need to build a new type of dialogue, if possible bipartisan, with the direct involvement of the citizen himself. And I must say that in this field probably the United States is in advance vis-à-vis European countries. You had, for instance, the important discussion about retirement age, which is one of the major issues of our social equilibrium of the ten years to come, and you gave some indication of the consensus finally starting to emerge. But up to now in Europe we have not been able to reach such a consensus—or even to study deeply such an issue.

2. *The problem of employment.* To exemplify what I mean, I will deal with the most fundamental long-term issue, which is employment. Employment is still the major challenge of Western societies and will remain so.

More than 32 million people are presently out of work in Western industrial countries and even if OECD countries were to get back to a real growth rate of three percent, unemployment would not drop in the next few years. Clearly a sustained worldwide recovery is the key answer, but at the same time there should be a renewed effort to assess better the link between growth and employment. Since 1973 real GDP (Gross Domestic Product) in the United States and in the four major EEC countries (France, Germany, Italy and the United Kingdom) has grown at the same yearly rate of about 2.2 percent. But associated with this there was a yearly increase of employment of about two percent in the United States (which implies the creation of 18 million new jobs from 1973 to 1981, a result modestly impaired by a new reduction of one million in 1982) against a stagnant employment in the EEC (yearly increase of about 0.2 percent). Stagnant employment makes problems of unemployment still more acute since workers who have lost their jobs may stay unemployed for a long time and young people may never find jobs. Long-term unemployment (more than six months) is several times higher in Europe than in the United States, and the share of youth unemployment in total unemployment has risen steadily since 1973.

To a large extent, this contrasting situation reflects development in labor costs. From 1973 to 1980, output per worker in the United States rose one percent annually, and real compensation rose 1.8 percent annually, while in the EEC the corresponding figures were 2.7 percent and 4.1 percent. Faced with a rapid increase in labor costs, declining productivity growth and rising oil prices, European firms have seen their profitability squeezed. They have closed their marginal plants and invested in capital-intensive techniques contributing to employment stagnation.

There is no easy answer to this fundamental problem, since ultimately one cannot envisage sustained growth if the purchasing power of the employed population is not growing steadily. There is therefore a need to reduce the non-wage component of labor costs, which means probably a stabilization of social benefits associated with a broad reform of social security systems in Europe, with a view to reducing the share of contributions based on wages. There is, at the same time, a need to learn from America's success in developing part-time employment, which represents 15 percent of your working force against 8 percent in my country, France.

Finally, the associated long-term problems of employment and the viability of social security systems, and notably of retirement schemes, should be addressed

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adequately. There are lessons for Europe to draw from the Japanese experience with an ever-increasing level of education of the working force, which might well imply extending to 18 years the mandatory education period, and from the U.S. experience, which gives flexibility in the selection by individuals of their age of retirement.

Employment will be largely determined in the future by social and cultural attitudes toward part-time work, retirement and education and therefore should not be addressed only in economic terms but in the broader context of the overall evolution of our societies.

Demography is both fundamental and predictable, while employment is the yardstick against which our ability to run free societies will be measured in the years to come. But if the data and the stakes are well-known, the possible solutions remain largely unknown. They should reflect national priorities and traditions, but I think that a better exchange of experiences, and a bipartisan dialogue in each individual country, is clearly needed.

I have already mentioned other issues, such as natural resources, innovation and capital formation as examples of the long-term problems to which the leaders should address themselves. If they do, they will gain nothing in political terms, since probably the intellectual horizon of the people does not go beyond a few months. By evaluation, by research, it appears that for the average Frenchman, the intellectual horizon is probably three months. What will happen beyond three months is not a direct concern for him. And when one is a leader, one ignores the next three months—one is living in a perspective of between a year and a half and ten years. A year and a half because any decisions you take will not normally have a result before that, in the economic, monetary or fiscal field. And if you embark on a new, major development—nuclear energy, a new weapon, a new technology—you know that the result will only come in a period which could be estimated between five and ten years. So there is a built-in discrepancy of point of view between the leaders and the voters, and it is an inherent responsibility of the leaders to address themselves to these long-term issues.

V

The general conclusion of these three lectures is left open for you as listeners—and now as readers. But I will suggest this. There was, before the crisis, a gradual evolution in international relations: growing interdependence and complementarity between industrial countries, détente in East-West relations—with, however, weaknesses (indifference to the North-South dialogue) and drawbacks (the disruption of the Bretton Woods system). These developments have been interrupted, and we have instead a fragmentation of conflicting issues, policies and solutions.

Clearly, lasting changes are taking place in our societies: new social and cultural values, new aspirations, new concepts. But the present moment, 1983, offers new opportunities, and new challenges through the conjunction of three events:

—The waning of the energy crisis, which carries with it opportunities to ensure lasting economic recovery, develop a new dialogue with the oil-producing countries, and take measured steps to move the monetary system toward a clearly stated objective of a fixed structure.

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—A change of leadership in the U.S.S.R. with its likely effects on the internal evolution of the East European countries and on East-West relations, probably the most important challenge.

—A new strategic balance as exemplified by the decision on the deployment of Euromissiles and recent military technological developments.

We should use these opportunities and challenges to promote a new climate of hope and confidence in the ability of our democratic governments to bring about orderly change internally and to provide the world with a clear vision of a more predictable and desirable future.

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COMMENT AND CORRESPONDENCE

FREEZING MISSILE ACCURACY

To the Editor:

In his article, "The Danger of Thermonuclear War," in your Summer 1983 issue, Andrei Sakharov states that it is "very important . . . to strive for the abolition of powerful silo-based missiles at the talks on nuclear disarmament." From the context he appears to be referring to Intercontinental Ballistic Missiles (ICBMs) with a throw-weight equal to or greater than the American MX.

At present the U.S.S.R. has more than 600 such missiles (SS-18s and SS-19s), while the United States has none, except for 50 Titans soon to be retired. These heavier ICBMs represent the centerpiece, quantitatively and qualitatively, of the Soviet strategic or intercontinental nuclear arsenal. They are the most accurate and reliable of the Soviet systems, and are loaded with more than half of the 8,000 strategic warheads employed by the U.S.S.R. In contrast, out of 9,000 strategic warheads deployed by the United States, fewer than one percent ride such missiles.

Thus, Mr. Sakharov's statement can be revised to read: in the talks on nuclear disarmament it is very important to strive for the abolition of the centerpiece of the Soviet strategic arsenal. This is surely a prescription for failure. In the present circumstances of mutual conflict, fear and mistrust, which Mr. Sakharov rightly emphasizes, it is improbable in the extreme that the Soviet government would be willing to negotiate away the larger and more valued portion of its strategic armament. Since the strategic arms talks began in 1969 there has never been, as far as I know, any indication that the Soviets were willing to make such a sacrifice; nor has there been any offer from the American side of concessions that would have been remotely equivalent.

If elimination of these heavy missiles is indeed indispensable, and to be attempted through negotiation, we should be considering which American advantages—in cruise missiles, missile accuracy, submarine-launched MIRVs (Multiple Independently Targetable Reentry Vehicles), and/or bomber payloads—would have to be sacrificed to drive a reasonable bargain. If we could devise an offer that would seem reasonable to an impartial observer, the Soviets probably would still refuse, since a government ordinarily values its favorite weapons more highly than outsiders do. But long before reductions sufficient to constitute a reasonable offer could be agreed to within our government the enterprise would be abandoned: it would be discovered that the elimination of the heavy Soviet missiles, though desirable in theory, was in practice not worth the agony of equivalent sacrifices in American deployments.

If the "abolition of powerful silo-based missiles" is not negotiable, is there any remedy for their destabilizing effect? Yes, in principle, if the remedy can be verified. The destabilizing effect of these weapons arises primarily from two characteristics: their hard-target destructive capability (CMP) and their vulnerability to the CMP of the opponent. The capability could be substantially nullified and the vulnerability greatly reduced if both sides would freeze missile accuracy at present levels and moderately increase the hardness of their missile silos.

This remedy is possible now, and will remain so for a few years, because missile accuracy is just beginning to catch up with silo hardness. The most

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accurate MIRVed missiles currently deployed on either side barely meet the minimal criterion of a hard-target weapon: a 50 percent capability of destroying an enemy silo. (This statement applies to MIRVed missiles only; the Soviets deploy perhaps 70 SS-18s and -19s with single warheads, whose CMP is far greater.)

The most powerful MIRVed missile warhead deployed by the United States has a CMP index of 33 or 34; the most powerful such warheads deployed by the U.S.S.R. have CMP indexes of 25 to 30. An index of 25 implies a 50 percent capability to destroy silos that can withstand blast pressures up to 2,000 pounds per square inch; an index of 34, the same capacity against silos hardened to withstand 3,000 pounds per square inch. The figure commonly given for the hardness of U.S. silos is 2,000; for the Soviets, 2,000 to 4,000.

The United States now has 900 hard-target, first-strike warheads, the W-78 deployed on 300 Minuteman III missiles. The U.S.S.R. may now have 2,000 such warheads, deployed on 250 MIRVed SS-18s and SS-19s, and may double that deployment by 1985.

If the CMP index can be held where it is, the proportion of silos on both sides that would survive attack would be substantial, even if they were not hardened beyond their present level. The Soviet advantage in numbers would in large part be nullified by the effects of missile fratricide and of an unfavorable exchange ratio if more than two warheads were used per target. But if the risks of a counterforce strike were still considered serious, the technology exists to harden silos so that present CMP levels would be generally ineffective against them.

But hardening cannot win the race if accuracy with no change in yield will give the MX warhead, scheduled for deployment toward the end of this decade, a CMP index of 193, almost six times as high as Minuteman's 33. Nobody expects improvements in hardening that would be remotely comparable.

Thus, the accuracy of ballistic missiles (I have left out cruise missiles as slower, therefore second strike, weapons) needs to be frozen at the level of current deployments. But even if the nuclear powers were willing to negotiate such a freeze, could they verify it? That seems to depend primarily on whether improvements in missile accuracy require missile flight tests. If they do, we can stop the improvements by prohibiting the tests, which would be easy to verify. But what if they do not? The debate on arms control badly needs reasonably impartial, expert testimony (if such exists) on this question.

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U.S. POLICY AND CENTRAL AMERICAN REALITIES

To the Editor:

The refreshing good sense of Arturo J. Cruz and Piero Gleijeses, writing of Nicaragua and El Salvador in your Summer issue, offers a timely reminder that what matters most in both countries is what happens inside their governments, and that neither one can be dealt with effectively by an Administration which prefers the ideological certainties of Jeane Kirkpatrick and the empty big-stickery of William Clark to the stubborn realities of Central America. A stern but fair test for the Kissinger Commission will be the degree to which its recommenda-

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tions respect the two propositions at the heart of these essays: for Nicaragua, that the object must be not counterrevolution but the rescue of the revolution, and for El Salvador that the reform of the military must be put at the very top of Washington's agenda. Both authors correctly give wholly secondary attention to what Washington has wrongly placed at the center of its rhetoric (though not its action), the line of influence and ambition (though not control) that does indeed run—thick at the beginning and thin at the end—from Moscow to Havana to Managua to the Salvadoran rebels.

The most important thing we should have learned by now, about our own fundamental attitude toward our Latin neighbors, is that when there is a true revolution, as in Mexico, Cuba, or Nicaragua, we do not have it in us to do what would be necessary to overthrow it. We have only the ability to strengthen the radicals by hostility or the moderates by forbearance, and our influence in either direction will not always be decisive. Carlos Fuentes is right to remind us that although seen from the south we sometimes look as bad as Moscow, we are simply not that kind of neighboring superpower. We are proving the point right now as we engage in predictably unsuccessful and inevitably radicalizing "covert" support of the Nicaraguan contras. If we are serious about the forcible overthrow of the Sandinista government, we would be doing something quite different *that we are not going to do.* We are stuck just where we were with Cuba 22 years ago. We are substituting covert ineffectiveness for a nonexistent serious determination. One difference is that today the country knows better even if the government does not.

El Salvador has a long-suffering people, a ripe-for-revolution upper class, a rebellion that still lacks authenticity, and a government that remains in pawn to an unreformed military. The present military leadership is responsible for a continuing process of generalized killing that is as offensive morally as it is self-destructive politically. Not even the most passionate defender of the present Administration is prepared to say that it has done all it could to stop this murderous outrage. What we have instead is the hard-faced apologetics of people with other priorities. Out of the simple self-respect—it is a wrong that we have the power to right—but also out of the most careful calculation, we must act to clean up this mess. The force and clarity with which Mr. Gleijeses makes this quite basic point is crucial to his own subtle and sensitive proposal for a political settlement, but it also has independent strength. Whatever else we do, if we are to go on supporting the Salvadoran government we must get the goon-squad killing stopped.

Analyses as individual and comprehensive as these two will not at once command agreement or determine choices on all points. To recommend powersharing in El Salvador is more to propose a way of thinking than to describe the terms of settlement. The amount of power to be shared will inevitably depend on the situation at the time of settlement. What is important is to recognize that it is in our interest as well as that of El Salvador that power should indeed be shared. This is what was understood and applied in the carefully negotiated centrist settlement of 1965 in the Dominician Republic. Similarly, no one can now say for sure what role may be opened to democratic Nicaraguans now forced into opposition by the hardening junta. What is plain is that the results of these unfinished processes will be better for all concerned if in Nicaragua the United States desists from ineffective covert support for wrangling right-wing contras and if in El Salvador it conditions its legitimate help to the government on a cleanup of right-wing violence. We need fewer CIA operatives on the

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Nicaraguan border and a stronger and more determined process of military advice and reform in El Salvador. If we take the wrong advisers out of the wrong place and put the right ones in the right place with the right orders, we can greatly strengthen our chances of success, and not incidentally, lower the risk of a deeper entanglement.

The mention of advisers leads me to make one last point. El Salvador is not Vietnam—not in size, to start with, but most of all not in the strength and skill of the communists there. The notion that a reforming reinforcement of our military advisory process in El Salvador would carry us across some Rubicon to overcommitment is pure fancy, an illustration of our fondness for learning the wrong lessons from our military history. One more merit of these two articles is that they seek the truth on the spot, not in labored analogies from the wholly different world of Southeast Asia.

But one other lesson from Vietnam does emphatically apply. If a government we are helping acts in a way that makes it impossible for our help to be effective, and if we either will not or cannot persuade it to change its ways, then the sooner we get out the better. It is quite likely that only when we have a government that understands this reality will we have one that will be effective in moving the military leadership of El Salvador from savagery against civilians toward the disciplined and professional work of making guerrillas want peace.

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IRAN'S UNSTABLE REVOLUTION

To the Editor:

In the two articles on Iran, "Iran's Durable Revolution," by Elaine Sciolino and "The Soviet Union and Iran," by Shahram Chubin, published in the Spring issue of your journal, the authors, in an attempt to portray themselves as objective realists, have nonetheless become victims of their own inconclusive assumptions. It is, in my opinion, vital that the international community in general and your readers in particular should not be subjected without challenge to the type of researched material that during the mid-1970s predicted the continuation of the Shah's imperial regime well into the 1980s. Both authors' assumptions that the Khomeini regime is stable and may last beyond his death are, in my judgment, based on inaccurate and misleading assumptions. This regime has never been, and is highly unlikely to become, stable in the true sense of the word for the following reasons:

1) Most Iranians hold Khomeini and his personal group of advisers responsible for all the atrocities and excess of his regime. He personally directed the imposition of medieval ideas and practices upon the nation—such as the confiscation of dissidents' properties, the execution of children, children spying on their parents, and the draining of the blood of condemned men and women before their executions, to name but a few. Becoming aware of the popular outrage that was rapidly growing against his regime, he then tried to appease the nation by offering an eight-point liberalization program last December.

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Neither his government nor the people took the program seriously. Although the invasion of people's homes, their arbitrary arrest and killing, and the confiscation of their property has slowed down somewhat, the practice of torture and brutal repression among over 30,000 political prisoners, along with a widespread disregard for human rights, exemplified best by the frequent disappearances of the opponents of the regime, has continued. Religious persecution, suppression of freedom of the press, speech, assembly and travel have not subsided. Hardly a day goes by without a group of people being subjected to some form of harsh measures in complete disregard of their rights, and in complete violation of any acceptable form of justice.

2) Khomeini's Islamic Republic has failed to improve the desperate economic conditions caused by his so-called revolution and the subsequent Iran-Iraq war. Most Iranians are convinced that the inept and inexperienced mullahs are unable to improve the economic situation of the country. Poverty, deprivation, high unemployment and intolerable inflation are the order of the day. Even Ms. Sciolino mentions the "unproductive nature of Iran's economy" in her article.

3) Everyone in Iran knows that Khomeini's provocations and efforts to export his "Islamic Revolution" to Iraq triggered the events which caused the tragic war between the two countries. Any remaining doubts about the cause of this were dissipated last November when a special ceremony marked the regime's creation of the Supreme Council of the Islamic Revolution of Iraq, and proclaimed Ayatollah Mohammed Bakr Hakim of Iraq, a Khomeini protégé, as its leader. As a consequence of these actions, the war has leveled many Iranian cities, caused the death of at least 200,000 Iranians, and made another one and a half million of our people homeless. Were it not for the valiant efforts of our armed forces, the destruction and loss of life would have been even greater. Since the state of terror, intimidation and systematic repression are the prime instruments for the maintenance of the regime, the war has been used to justify these oppressive measures as well as the intolerable state of the economy. Keeping the armed forces away from the capital is a further incentive to Khomeini to continue with this fruitless war. As long as the Iraqis were in occupation of Iranian territories, the Iranians heroically supported the war effort. But now that the Iraqis have been pushed back behind their border, popular support for the war is no longer shared by the masses. Every day one can read in the Islamic Republic's newspapers statements by the authorities chastising the front-line soldiers or the Revolutionary Guards for deserting or refusing to fight. Even though Iran has lost an additional 30,000 men since it entered Iraqi territory, Khomeini still insists on ousting President Saddam Hussein in order to establish an "Islamic government" in Iraq.

4) Internationally, since Khomeini's Constitution makes it a duty for his regime to unify the Islamic world, it has supported and encouraged revolution in other Islamic countries. Many terrorist groups are being trained in various parts of the country by Revolutionary Guards for the purpose of destablizing the moderate governments in the region. The December 1981 plot to overthrow the government of Bahrain, and the recent bomb explosion in the American Embassy in Beirut, are but a few examples of terrorist activities in the region directed from Tehran. In spite of these well-known facts, Mr. Chubin (whose article is based on the misleading assumption that there is "no competing ideology or movement of equal breadth and depth" to that of the mullahs—owing to his lack of understanding of how Islam itself is interpreted by various religious sources—and, similarly, that "Islam" is a single unified political force—a state-

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ment especially questionable for the period when Khomeini is no longer alive) quotes Mr. Hashemi Rafsanjani as saying that the Tehran regime does not intend to export the so-called "Islamic Revolution" by resorting to force.

How can such a government, which has done immeasurable harm and damage to the country, to its people, and to the world community survive in the long run? What I cannot understand is the conspiracy of silence surrounding this human tragedy maintained by the international community in general and by Western democracies in particular. Despite my constant warnings, the fall of the Shah as a consequence of the inadequacies of his regime took the entire world by surprise. I solemnly hope that the free world does not succumb to Khomeini's intimidations by thinking that his tyranny can survive indefinitely.

As for the regime's attitude toward the superpowers, indeed Khomeini's policies vis-à-vis the United States and the Soviet Union have never been based on the policy of "equidistance." Whereas diplomatic relations with the United States do not exist, the Soviet Union and its allies in Eastern Europe still enjoy full diplomatic and increasing commercial relations with Iran.

Partly because of his deep-seated ideological hostility toward the West in general and the United States in particular, Khomeini is resolved to undermine the pro-Western Arab regimes in the region and replace them with "Islamic governments." He sincerely believes that the Western "colonialists" have been the main cause of the backwardness of Islamic societies. For this and other reasons, he calls the United States "The Great Satan." Meanwhile, the Soviet Union has sought to strengthen this anti-Western attitude among Iranians, and has quietly helped to export trouble in the form of religiously flavored anti-Western radicalism to the Persian Gulf states.

While Khomeini's regime took 52 American diplomats hostage for 444 days, it only orders Soviet diplomats out of the country on the discovery of their subversion. Furthermore, when all foreign banks were nationalized, the Russo-Iran bank was the only one exempted at the time. Today, despite the propaganda that surrounded the shut-down of Iran's Tudeh Party (an attempt to gain Western diplomatic support, rather than actually reduce Soviet influence in Iran), more than 2,000 Soviet and East European advisers, technicians and security experts still work in the country. How could such a policy be called equidistant?

Regarding the future, since there is no hierarchy among Shi'ite leaders, Khomeini cannot choose his successor. His preferred candidate, Ayatollah Hossein Ali Montazeri, lacks the necessary ingredients to become the next "Faghih"—i.e., intelligence, education and respect among the clerical constituency, as mentioned in Ms. Sciolino's article. Furthermore, the overwhelming majority of the clerical constituency are in principle opposed to the concept of "Velayat-e Faghih," or the dictatorship of the mullahs, which Khomeini has integrated into the Islamic Republic's so-called national constitution. What both authors have failed to grasp is the fact that four years of fanatical rule by the clergy has proven that their direct involvement in the political life of the country has enormously weakened their position and prestige among the Iranian masses. If one were to interview the hundreds who leave the country every month, one would realize that, contrary to appearance, millions of Iranians have become extremely disillusioned with both Islam and the clergy. Consequently, it is highly doubtful that the people of Iran, including a majority of the clergy, will ever support any form of government that aims to keep nationalist forces out of the country's political life, once Khomeini has left the political scene.

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Therefore, the most probable outcome after Khomeini is not the continuation of his system, but rather the emergence of a coalition between democratic forces in the country and the moderate clergy, backed by nationalist elements in the armed forces.

Democratically minded and peace-loving nations should never lose sight of this undeniable reality.

CHAPOUR BAKHTIAR
Paris, France

Mr. Bakhtiar was the Prime Minister of Iran during January and February 1979.

Mr. Chubin replies:

Chapour Bakhtiar is of course free to use your pages for the expression of his views and political aims and I would not wish to intrude on that opportunity. However, while deferring to Mr. Bakhtiar's apparently recently acquired understanding of Islam, I do object to being quoted on the subject out of context. I did not suggest that the regime is wholly reliant on Islam, but rather that "the use of Islam as an ideology with a national appeal—leavened with class and cultural differences—has enabled the clerics to establish, run and legitimize a political system wholly new to Islam. Buttressed by a nationwide network of mosques and mullahs, the regime is challenged by no competing ideology or movement of equal breadth and depth. This together with the specific features of Shi'ism (particularly its mixture of passive fatalism and militant martyrdom) and Iranian political realities (religious programming and economic inducements combined with intimidation and liquidation) assures the regime a certain durability."

Second, in discussing Iran's "export of the revolution" and disruptive actions in the Persian Gulf, I concluded that, "Iran's political situation gives little cause for optimism over an early return to emphasizing domestic consolidation over external adventures . . . ." In quoting Mr. Rafsanjani's denial of the intention to export the revolution by resort to force, I merely sought to show the discrepancy between declaratory and actual policy.

Third, the main thrust of the article was to make exactly the same point in reference to Iran's relationship with the U.S.S.R.: to note the gap between formal and actual "equidistance."

Finally, I did not seek to promote my own political preferences but to describe (as objectively as I could) current circumstances and incipient trends. Whether or not this regime or some variant endures, only time will tell. What is certain is that whatever one's views about it (and I suspect mine and Mr. Bakhtiar's are not dissimilar), it has to be understood if Iranians are to learn anything from it. To achieve political consensus and a just social order will require a measure of introspection, humility and compromise. A good time to start the cultivation of these is now.

ABOLISHING ACDA

To the Editor:

In their article in your Summer 1983 issue, "Reorganizing for More Effective Arms Control Negotiations," Barry Blechman and Janne Nolan assert that the General Advisory Committee on Arms Control and Disarmament (GAC) has

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"become moribund." To the contrary, since its confirmation by the Senate last September, President Reagan's General Advisory Committee has been meeting on a monthly basis and will continue to do so for the foreseeable future. Each of these meetings is duly announced in advance in the *Federal Register.*

The Committee has been pursuing a wide agenda of arms control issues and interacting with many responsible persons, both in and out of government, while observing the strictest standards of confidentiality in carrying out its statutory duty to advise the President, the Secretary of State, and the director of the Arms Control and Disarmament Agency. I hope this information will correct the impression given by Mr. Blechman's article regarding the health of the General Advisory Committee.

WILLIAM R. GRAHAM
Chairman
General Advisory Committee on Arms Control and Disarmament
Washington, D.C.

To the Editor:

The thoughtful advocacy piece by Barry Blechman and Janne Nolan offers a provocative, yet unconvincing, case for abolishing the Arms Control and Disarmament Agency (ACDA).

While some of the Agency's substantial contributions are briefly related, the authors focus on problems that have, undeniably, afflicted ACDA. But ACDA's effectiveness—like that of other bureaucratic entities—has varied considerably depending on the issue, the President, the director's relationship with the Secretary of State, etc. And the authors infer, perhaps unwittingly, that there was substantial support within ACDA for General and Complete Disarmament (GCD). Although there were three or four analysts in this category in 1961–63, ACDA's leadership had no illusions on this score. After 1964, one could search in vain for the "screwball" ACDA disarmers Robert Lovett feared. Most government officials, including ACDA officials, did see GCD as "messianic and impractical."

Of the authors' four recommendations, the principal one relates to transferring most of ACDA's functions to the State Department, particularly to a "new" Under Secretary of State. This option was considered and rejected in 1961, in part because State did not want the responsibility. Why, today, would or should State be anxious to take on the often undeserved vilification heaped on ACDA by the ideologues of the Left and Right? But there are more serious problems with the proposal:

— The present system does not, as the authors assert, encumber the Secretary of State concerning arms control negotiations. ACDA-based negotiators are not rogue elephants. Neither in law nor in fact does ACDA's director enjoy an unhealthy independence from the Secretary. No director, to my knowledge, has ever seen the President without first consulting with the Secretary. The Arms Control and Disarmament Act places the director "under the direction of the Secretary of State;" the director is responsible for the "management," not the direction, of negotiations. Section 27 of the Act, as amended, has the Special Representative for Arms Control and Disarmament Negotiations reporting "through" the director to the Secretary and President. At most, ACDA is a quasi-independent agency—a status

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that has often been beneficial to both the Secretary and other senior officials. And why the fuss if, as the authors correctly state, "Negotiators are only proxies for their respective governments?"

— If the present Under Secretary for Security Assistance has "rarely functioned as was envisioned," why assume that if this position were reconstituted to include the highly "politicized" subject of arms control, the outcome would be any different? If this person had the kind of "independent standing in the field" the authors prefer, would he not present a threat to the Secretary?

— If the Secretary is uninterested in the subject, arms control specialists would not want to be buried in State. But even if he *is* interested, no Secretary has time to give priority attention to arms control. However, this is ACDA's sole mission. When the Secretary and the director clash on a critical matter, the latter can, and often does, go elsewhere for allies. It would be unthinkable for an Under Secretary to do this.

— The cumulative bureaucratic clout of arms control interests would likely decrease with ACDA's demise. State has the smallest budget of cabinet-level departments, it has no notable public or congressional constituency, and generally has strained relations with Congress. Additionally, there would be one less arms control spokesman at National Security Council meetings and interagency councils. Indeed, as State and ACDA frequently disagree, arms control interests may be completely unrepresented if ACDA is abolished.

— ACDA's independent research capability has often permitted it to act as a catalyst in moving good ideas along and to successfully resist "cover-up attempts" (Fred Iklé's words) to suppress the findings of important studies.

— To a degree, as Philip Farley has said, a quasi-independent entity for arms control is useful in itself. Just being there creates certain pressures for using it. The Seabed Treaty owes its existence, in part, to ACDA's organizational status.

— Eliminating ACDA would diminish the quantity and quality of arms control information received by Congress and seriously reduce the essential and valuable oversight role of key congressional committees.

— Abolishing ACDA would be seen at home and abroad as a retreat from America's commitment to arms control, not because, in the authors' opinion, this reaction would be unjustified, but because it *would* be a retreat.

The authors' second proposal is to establish an "interagency policy formulation committee" to be "loosely presided over by the national security adviser" that will take the lead in arms control policy. At first glance this seems unobjectionable. Every Administration has formal interagency coordinating committees. Yet the authors' rationale and assumptions are puzzling: this new committee will "eliminat[e] the misperception that arms control . . . enjoys substantive and political independence within the government [and] eliminate . . . interagency strife over who 'controls' arms control policy." Whoever believes that arms control policy enjoys such independence not only has a misperception, but, as the authors know, is misinformed. Arms control proposals are reviewed and reviewed—often to death. Nor can any committee eliminate inevitable bureaucratic jostling for "control" of policy. The decisive power centers for arms control policy are usually the White House and the Defense Department. DOD should not have the lead. Only the White House has the authority and potential neutrality to guide and, ultimately, decide policy issues. Hence, any senior interagency committee dealing with arms control should be tightly, not loosely,

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led by the assistant for national security affairs. DOD would not take kindly to the authors' proposed committee, which smacks suspiciously of State Department domination.

The authors next propose to restructure the General Advisory Committee on Arms Control and Disarmament, after detailing its past ineffectiveness. But their proposal, which includes having a majority of the GAC's members appointed by Congress, is a prescription for paralysis and executive-legislative tension. The problems with the recommendation are well articulated in a 1982 Congressional Research Service (CRS) study by Charles Gellner. More promising is Senator Nunn's proposal to make the GAC a bipartisan presidential commission, perhaps analogous to the recent Scowcroft Commission.

Lastly, the authors, with good reason, are disturbed about the "quasi-regulatory functions" that Congress has given to ACDA. During his able tenure with ACDA, Barry Blechman came to know better than anyone the headaches and frustrations caused by producing arms control impact statements. He is certainly correct in arguing that the General Accounting Office or CRS (or what about a new National Security and Arms Control Office analogous to the Congressional Budget Office?) could better serve Congress's needs for information and analysis on weapons systems.

But, again, abolishing ACDA hardly solves the problem. State would then be saddled with the burden. Nor is this made any more palatable by vaguely suggesting that (somehow) State be given "a role in internal executive branch deliberations on weapons acquisition decisions." State, ACDA, and the Office of Management and Budget should have such a role, but DOD has successfully resisted such intrusions. Eliminating ACDA is no golden key for unlocking the weapons acquisition process to those outside the Pentagon with legitimate interests in that process.

The authors' central prescriptive theme, and I agree wholeheartedly, is that American arms control, defense, and foreign policy must be better integrated. They have performed a valuable service in focusing attention on this problem. But abolishing ACDA is not only unwise, it is hazardous. If a future Administration shifted arms control's organizational focus to State, what would prevent yet another Administration from again reorganizing and, in the process, wiping out State's new-found prerogatives? ACDA cannot be so casually executed—it will take an act of Congress.

There is another way to go. It is partly rooted in the recommendations of the Odeen Report, which were partially implemented in the final months of the Carter Administration. Time ran out on that Administration and President Reagan terminated those productive integrative measures that were effectuated. For an analysis of the Odeen Report—and Blechman was ACDA's point man for the study—I modestly suggest my coedited *Decisionmaking for Arms Limitation*.

DUNCAN L. CLARKE
School of International Service
American University
Washington, D.C.

Professor Clarke is also the author of *Politics of Arms Control: The Role and Effectiveness of the U.S. Arms Control and Disarmament Agency.*

Mr. Blechman and Ms. Nolan reply:

Mr. Graham is technically correct; we were ill advised to describe the General Advisory Committee on Arms Control and Disarmament (GAC) as "moribund."

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Not being avid readers of the *Federal Register*, we were unaware that it had met monthly since September 1982; we stand corrected.

Of course, the fact that the GAC was not constituted until September 1982—20 months into President Reagan's term—speaks volumes about the Administration's interest in arms control and specifically about the importance it attributes to the advisory committee. Recent calls from the Congress for the creation of a bipartisan commission on arms control, well after the GAC had apparently been rejuvenated, suggest that others may share our view of the current committee's inadequacies. Incidentally, we can attest that the GAC indeed observes "the strictest standards of confidentiality." Of the more than one dozen present and former officials who were kind enough to review drafts of our manuscript, many of whom commented in vociferous detail, not one took issue with our discussion of the GAC. They probably don't read the *Federal Register* either.

As for Professor Duncan's more comprehensive commentary, his many points add up to a single difference of view: he maintains that the reorganization we propose would not work, at least not as well as the present system does. We think the fact that there has not been a single ratified nuclear arms control agreement in more than ten years is fairly strong evidence that something is wrong. The continuing disarray within the Administration on arms negotiations, the intensifying struggle between the Congress and the executive branch on these same issues, and the palpable impatience of citizens throughout the nation lend support to this view as well. Would the proposed reorganization work better? We can only say: "Based on our experience, in our view, yes." All of Professor Duncan's specific points are addressed in our article; we're content to let it speak for itself.

It is interesting to note that the Administration in recent days has indicated its intention to add money, people, and status to the Arms Control and Disarmament Agency—bringing it nearly back to the level it was at when President Reagan took office. Transparent political objectives aside, the move is interesting in that it suggests dawning appreciation within the executive branch that something is wrong. Even so, as we pointed out in the article, while organizational reform is necessary, it is not sufficient. In the end, we will have progress in arms negotiations only when the President, and the people he appoints to responsible positions, resolve to bring the talks to successful conclusion.

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RECENT BOOKS ON INTERNATIONAL RELATIONS

Edited by Lucy Edwards Despard

General: Political and Legal

John C. Campbell

PRESENT HISTORY: ON NUCLEAR WAR, DÉTENTE, AND OTHER CONTROVERSIES. By Theodore Draper. New York: Random House, 1983, 458 pp. $19.95.

These are articles of the past decade on nuclear deterrence, NATO, détente, the Vietnam War, Henry Kissinger (at length) and sundry other topics. The "present" history, accordingly, is sometimes rather far in the past. Nevertheless, since Draper writes with a combination of verve and common sense, one can dip into the book, almost anywhere, with profit.

STATECRAFT AS SOULCRAFT: WHAT GOVERNMENT DOES. By George F. Will. New York: Simon and Schuster, 1983, 186 pp. $13.95.

Drawing on Burke rather than Locke, and questioning individualism and the free market as adequate principles for the life of the American nation, George Will preaches a conservatism which will preserve the essence of Western civilization, and which includes morally based social action. He has little to say on international matters, but notes that Western Europe, which shares the same heritage, is as deceived by false values as is America, and that self-indulgence is no proper defense against the barbarians. Will's arrows are almost all on target when he exposes the superficiality of American public life, but if he is long on the need for change, he is short on specifics.

MODERN TIMES: THE WORLD FROM THE TWENTIES TO THE EIGHTIES. By Paul Johnson. New York: Harper, 1983, 817 pp. $27.95.

Wide-ranging and quirky, this history of our times (since World War I) hits all the highlights and hot spots: the Russian Revolution, the Weimar Republic, the Kuomintang in China, the Crash, the Depression, the rise of Hitler, World War II and on to the 1980s. Johnson sees little difference between Hitler and Stalin, or Hoover and Roosevelt. All these troubles and troublemakers stem from two things: the belief in state planning, and the loss of belief in God. A latter-day Mencken, Johnson is witty, gritty and compulsively readable.

L.D.

REVOLUTIONARY SOCIALIST DEVELOPMENT IN THE THIRD WORLD. Edited by Gordon White, Robin Murray, and Christine White. Lexington: University Press of Kentucky, 1983, 278 pp. $26.00

A comparative study of the development process in six socialist or "proto-

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socialist" states. Four of them (China, North Korea, Vietnam, Cuba) have already had a long time to put the Marxist-Leninist faith into action; the other two (Mozambique and South Yemen) are relatively new. The country chapters contain good descriptions of the guiding principles of the regimes and of the progress, or lack of it, in economic development. Each author goes his own way without hewing closely to the lines set by Gordon White in his opening overview chapter, not surprising since each of these states has gone its own way. Some of the authors tend to take the official theories a little too seriously and to underplay the price these societies have paid for their socialist systems.

ESCAPE TO FREEDOM: THE STORY OF THE INTERNATIONAL RESCUE COMMITTEE. By Aaron Levenstein. Westport (Conn.): Greenwood Press, 1983, 352 pp. $29.95.

From the 1930s, with the first wave of refugees from Nazi Germany, to its operations today in aiding refugees from persecution and famine in Europe, Asia, Africa and Latin America, the International Rescue Committee has been a prime example of effective private relief and rescue work. This semi-official history is a tribute to all who have participated in that work and a service to the public in making the record known in detail.

THE CONSULAR DIMENSION OF DIPLOMACY: A SYMPOSIUM. Edited by Martin F. Herz. Washington: Institute for the Study of Diplomacy, School of Foreign Service, Georgetown University, 1983, 78 pp.

The consular career has been the orphan of the American and other foreign service establishments. Martin Herz's symposium is an attempt to rescue it from obscurity and give the consular service its due as an integral part of a country's diplomacy. The book is mainly about the American service, but the conclusions apply across the board.

General: Military, Technological, and Scientific

Andrew J. Pierre

STRENGTHENING CONVENTIONAL DETERRENCE IN EUROPE: PROPOSALS FOR THE 1980s. Report of the European Security Study. New York: St. Martin's, 1983, 260 pp. $9.95 (paper).

This study, organized by the late Carroll Wilson, brought together a group of eminent European and American specialists and military officers to ask what could be done to reduce reliance on the early use of nuclear weapons in NATO strategy. Cautiously, the study does not advocate abandoning either the strategy of Flexible Response or the doctrine of Forward Defense. But it does conclude that the effectiveness of conventional defense forces could be substantially improved through new advanced technologies for target acquisition and various "high tech," non-nuclear capabilities which would make it possible to suppress Warsaw Pact air forces and interdict at rear-echelon choke points. The authors believe that this could be done for about $20 billion over a ten-year period and with a level of expenditure only one percent higher than the current NATO goal of three percent annual growth in defense spending. The thoroughness of the study, authority of the participants, and the balanced character of the conclusions have made this a major contribution to the thinking on this problem.

U.S. GROUND FORCES AND THE DEFENSE OF CENTRAL EUROPE. By William P. Mako. Washington: Brookings, 1983, 137 pp. $18.95 (paper, $7.95).

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Complementing the study above, this work focuses on manpower and the deployment of ground forces. Mako examines and gives a fair hearing to the various arguments for altering the U.S. contribution to NATO. Looking at the military balance in Central Europe, he concludes that neither NATO nor the Warsaw Pact can be confident of the outcome of a conventional war. He is concerned about the risk of a conflict outside of Europe leading to a diversion of forces to another theater, or preventing reinforcements from coming from the United States to NATO. Altogether, however, he believes that the present posture is roughly adequate and recommends only a modest strengthening of reserve forces and augmentation of their sealift capability.

U.S. DEFENSE MOBILIZATION INFRASTRUCTURE. Edited by Robert L. Pfaltzgraff, Jr. and Uri Ra'anan. Hamden (Conn.): Archon Books, 1983, 292 pp. $32.50.

Given a national decision to expand defense programs, does the United States have the necessary industrial infrastructure for such a "surge"? This volume examines many of the industrial and manpower prerequisites for successful mobilization. The resource management problems are great and they are well discussed in this volume by a group of specialists on widely varying aspects of the problem.

CHANGING U.S. MILITARY MANPOWER REALITIES. Edited by Franklin D. Margiotta, James Brown, and Michael J. Collins. Boulder (Colo.): Westview Press, 1983, 267 pp. $25.00.

What makes this volume different from so many others on military manpower are the chapters on *woman*power in the military as well as the special problems which armed forces careers create for families.

THE WIZARDS OF ARMAGEDDON. By Fred Kaplan. New York: Simon and Schuster, 1983, 452 pp. $18.95.

The story of the remarkable civilians who developed the novel field of nuclear strategy—men such as Bernard Brodie, William Kaufmann, Albert Wohlstetter and Herman Kahn, among others—is told admirably well. Even those who are familiar with this story will find fascinating new details here. Especially interesting is the account of the pre-1960 period. An absorbing work which is more scholarly and less sensational than the title implies.

FACING THE THREAT OF NUCLEAR WEAPONS. By Sidney D. Drell. Seattle: University of Washington Press, 1983, 130 pp. $10.00 (paper, $4.95).
THE NUCLEAR FUTURE. by Michael Mandelbaum. Ithaca (N.Y.): Cornell University Press, 1983, 131 pp. $19.95 (paper, $5.95).

These two short books do not provide anything very new, but they offer clearly written and thoughtful comments about the key nuclear issues of the day. Drell is a prominent scientist; it was to shorter statements of his views that Andrei Sakharov was responding in his article in the Summer 1983 issue of *Foreign Affairs*, included in an appendix to the present book. Mandelbaum takes a moderate approach, believing that the nuclear future in the short-to-medium term will be much like the past, with little chance of either nuclear war or nuclear disarmament.

ARMS CONTROL: THE MULTILATERAL ALTERNATIVE. Edited by Edward C. Luck. New York: New York University Press, 1983, 258 pp. $32.50 (paper, $15.00). A UNA-USA book.

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In recent years there has been atrophy in the use of multilateral forums for dealing with difficult arms control problems. This has been the result, in part, of heightened tensions between the superpowers, but also perhaps of a feeling of exasperation over the results which large groupings achieve. Yet all the nations in the world have much at stake in international security. This volume addresses the advantages and the pitfalls of multilateral arms control for dealing with such global problems as the spread of nuclear arms and conventional weapons. The authors, assembled by the United Nations Association of the U.S.A., are of high quality and they have a number of interesting insights.

THE BATTLE FOR THE FALKLANDS. By Max Hastings and Simon Jenkins. New York: Norton, 1983, 384 pp. $17.50.

Far better than earlier "instant histories," this is a thorough work by a war reporter who was at the battlefront (Max Hastings) and a political observer in Whitehall (Simon Jenkins, political editor of *The Economist*). No flag-waving account, this book dissects bungled military operations and bad political judgements as well as extolling the ultimate success. Victory in the Falklands, the authors are convinced, was a much closer thing than most people realized at the time.

General: Economic and Social

William Diebold, Jr.

MULTINATIONAL ENTERPRISE AND ECONOMIC ANALYSIS. By R.E. Caves. New York: Cambridge University Press, 1983, 352 pp. $34.50 (paper, $9.95).

Not quite the one-volume summa we are all hoping for, this is still a major contribution. Professor Caves of Harvard has rigorously surveyed the already large literature to see just what has been proved—and what remains unclear—about the economics of multinational enterprises. Public policy is treated more generally, politics are left aside, as are Marxist and related schools of thought. Very good chapter summaries, an essay on the literature, and a 30-page bibliography help make this an excellent study, a basic guidebook for future work in the field.

AMERICAN INDUSTRY IN INTERNATIONAL COMPETITION. Edited by John Zysman and Laura Tyson. Ithaca (N.Y.): Cornell University Press, 1983, 432 pp. $34.95.

The bulk of this valuable book is made up of fairly detailed studies of American industries that are having trouble coping with foreign competition: steel, automobiles, color TV, semiconductors, footwear, textiles and apparel. The editors relate the analyses of the pieces to one another and make a good argument for the selective use of sectoral policies when general policies fail, especially to facilitate adjustment and avoid protective measures. A chapter on small business in Italy fits in none too neatly but is too interesting in its analysis to ignore.

DANGEROUS CURRENTS: THE STATE OF ECONOMICS. By Lester C. Thurow. New York: Random House, 1983, 247 pp. $16.95.

An iconoclastic member of the guild asks not only, "What do economists really know?" but also, "Why do they say so many things that do not square with the facts?" The results are refreshing but, naturally, not conclusive. Much of what

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Professor Thurow says is well known, but he dots *i*'s and crosses *t*'s clearly and neatly.

BEYOND THE WASTE LAND: A DEMOCRATIC ALTERNATIVE TO ECONOMIC DECLINE. By Samuel Bowles, David Gordon, and Thomas Weisskopf. New York: Anchor Press/Doubleday, 1983, 465 pp. $17.95.

The waste is in unemployment, low-productivity jobs, unused capacity, overmanned management, defense spending, and the costs of shoring up a corporate power structure that is under attack at home and abroad. The authors, who are able economists, do a good job of torpedoing some common explanations for America's economic troubles and develop some ingenious statistical analyses that will not go unchallenged. The "democratic economy" with which they would replace all this mess would provide higher consumption, higher investment, more leisure, better pay, and more participation by people in the shaping of their own affairs. Unfortunately, the prescriptions for achieving these desiderata are none too persuasive and make big assumptions about how people will work in a new social order and what will result from a high degree of public control over investment.

MILITARY EXPANSION, ECONOMIC DECLINE. By Robert W. DeGrasse, Jr. New York: Council on Economic Priorities, 1983, 230 pp. $10.95 (paper).

The well-known arguments showing that military spending is more a burden than a benefit to the American economy are well laid out and buttressed by some quite good statistical work in this succinct, clear study.

INDUSTRIAL CAPACITY AND DEFENSE PLANNING. Edited by Lee D. Olvey, Henry A. Leonard and Bruce E. Arlinghaus. Lexington (Mass.): Lexington Books, 1983, 169 pp. $19.95.

Most of the contributors to this useful volume are alarmed at the thinness of the American industrial capacity for supporting a war. Their prescriptions range from fairly modest changes in administration and procurement to major reorganizations of U.S. industry and our arms relations with our allies. Imports, competition, profits, appropriations, labor, and planning are all looked at, but a reader is hard put to know what measures to support unless he knows which war we are trying to fight or prevent.

NUCLEAR POWER STRUGGLES: INDUSTRIAL COMPETITION AND PROLIFERATION CONTROL. By William Walker and Mans Lönnroth. Winchester (Mass.): Allen & Unwin, 1983, 198 pp. $24.00.

This excellent survey of the nuclear power industry tells in detail about countries, companies, products, and technologies. It suggests, quite persuasively, which will decline and which will stay strong, but leaves open the question of which will do best—that may depend on how governments treat their industries—and whether vicious competition for exports will foster the proliferation of nuclear weapons. To avoid this last, the authors want the nuclear powers to take the Nonproliferation Treaty seriously, and to provide technology to those who sign it.

NUCLEAR INC.: THE MEN AND MONEY BEHIND NUCLEAR ENERGY. By Mark Hertsgaard. New York: Pantheon, 1983, 339 pp. $16.95.

Although he dislikes nuclear power, big business, and past and present relations between government and industry, Mr. Hertsgaard gives the members of "the Atomic Brotherhood" a fair chance to speak for themselves, and shows a good

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bit of humanity in understanding them. The interviews, statistical compilations, and basic narrative make this a very useful book. Some of the weaknesses in analysis—or is it looseness of language?—stem from ideas about the power structure in the United States; ambivalence about competition, collusion and profits; and a failure to dig deeply enough into some complex issues. The author, a fellow of the Institute of Policy Studies, expects most of the companies to hang on, in spite of the long decline of the industry, and suggests that in the future there will be a need for more careful public and private planning, standardization, and government incentives to make the business profitable as well as relatively safe.

OIL PRICES, ENERGY SECURITY AND IMPORT POLICY. By Douglas R. Bohi and W. David Montgomery. Washington: Resources for the Future, 1982, 203 pp. (Baltimore: Johns Hopkins Press, distributor, $25.00).

A well-reasoned case for combining a moderate import tariff on oil with public and private stockpiling as the best policy for coping with the high world price and the risk of disruption of supplies.

THE WORLD AFTER OIL. By Bruce Nussbaum. New York: Simon and Schuster, 1983, 319 pp. $14.95.

Lively sketches of robotization, bioengineering and telecommunications are joined with a tendentious view of "Europe in decline, Japan in ascendancy, the Soviet empire in disarray and America beginning to distance itself from its Atlantic allies . . . ." There are provocative bits in this jumpy, uneven book—Germany moving East, the need for nationalism in high technology. There are also serious weaknesses, such as the superficial discussion of the difficulties of restructuring the American economy and the failure to talk seriously about the *superlumpenproletariat* that is predicted.

WORLD ENERGY SUPPLY. By Manfred Grathwohl. Berlin/New York: de Gruyter, 1982, 450 pp. $54.50.

Data about almost all forms and uses of energy are packed into this remarkably succinct survey by the Scientific Director of the Command and General Staff College of the German Armed Forces.

U.S. FOREIGN POLICY AND THE THIRD WORLD: AGENDA 1983. Edited by John P. Lewis and Valeriana Kallab. New York: Praeger (for the Overseas Development Council), 1983, 293 pp.

Professor Lewis makes a strong case for American leadership in recognizing the salient position which developing countries now play in the processes of interdependence. Chapters on Latin America, Africa and South Asia strike the familiar note that sound American policies have to take account of the interests and attitudes of governments in these areas. Other authors question the wisdom of trying to promote private enterprise by direct means and stress the importance of strengthening the World Bank.

ECONOMIC SUMMITRY. By George de Menil and Anthony M. Solomon. New York: Council on Foreign Relations, 1983, 88 pp. $8.95 (paper).

A highly readable, although fairly time-specific, account of one of the newest "institutions" in the international economic firmament. By presenting the perspective of two people from quite different backgrounds - one an academic, one a former participant in the summit process - as well as drawing on the views of a distinguished study group, the short book throws some considerable light on the role and significance that the summit meetings have had since 1975. It provides

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the first succinct synthesis in the public domain of the record of the summits up to the 1983 Williamsburg meeting, and outlines some features of the current debate within governments and elsewhere about the practice of summitry.

John M. Curtis

The United States

Gaddis Smith

THE PRICE OF POWER: KISSINGER IN THE NIXON WHITE HOUSE. By Seymour M. Hersh. New York: Summit Books, 1983, 698 pp. $19.95.

Seymour Hersh is a journalistic vacuum-cleaner poking into every closet and under every rock. The contents of his collection bag are a jumbled, sometimes unverifiable mixture of the significant and the trivial. Nonetheless, the dirt is real. He is dealing with notorious conduct by responsible officials: bureaucratic throat-cutting, deception of the public and Congress, blindness to the "human costs of their actions" abroad. The breathless intensity with which he collects facts, rumors and innuendo leaves little time for philosophical reflection. But even after discounting heavily, what he describes of his subjects' behavior (Kissinger's, Nixon's, with Alexander Haig moving toward center stage) is ominous commentary on the erosion of fundamental decency in American foreign policy in those years. Few books in recent times have been so much discussed and vigorously attacked. If, however, the book causes its readers to pause before accepting the Kissinger achievement as a model to emulate, it will have accomplished a worthy purpose.

GAMBLING WITH HISTORY: REAGAN IN THE WHITE HOUSE. By Laurence I. Barrett. New York: Doubleday, 1983, 511 pp. $19.95.

An excellent, objective account constructed around biographical portraits of the President and his principal advisers. The author, senior White House correspondent for *Time*, is well informed and has interviewed extensively. The picture of the President has some new details but is familiar in its general outline: decent instincts combined with considerable ignorance and insensitivity. There is good material on the forced resignation of Alexander Haig as Secretary of State.

THE INTEMPERATE ZONE: THE THIRD WORLD CHALLENGE TO U.S. FOREIGN POLICY. By Richard E. Feinberg. New York: Norton, 1983, 287 pp. $17.50. A Council on Foreign Relations Book.

A very timely critique paying particular attention to Latin America. Mr. Feinberg argues that Third World governments, regardless of domestic ideology, want to secure the benefits of participation in the world economy. This gives the United States great advantages over the Soviet Union—provided that American policy awakens to the primacy of economic factors, outgrows its exaggerated image of Soviet omnipotence, and recognizes the inadequacy and often self-defeating nature of military solutions. The author advocates a "neorealism" which accepts the inevitability of change, restrains the impulse to intervene, and is generally patient, tolerant and self-confident.

THE LIMITS AND POSSIBILITIES OF CONGRESS. By Philip Brenner. New York: St. Martin's, 1983, 206 pp. $15.95 (paper, $8.95).

The author argues that the popular assumptions about Congress as an institution composed of parochial men buffeted by special-interest groups and con-

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cerned only for their own reelection are inadequate. Employing an explicitly Marxist analysis, he contends that Congress has more potential for acting in the public good than is generally realized. But that potential is limited by the dominance of the owners of wealth over the workers in American society as a whole. Theory is illustrated by two substantive case studies: aborted congressional initiatives for normalization of relations with Castro's Cuba, and action on the 1972 Higher Education Act.

A JOURNEY FOR OUR TIMES: A MEMOIR. By Harrison E. Salisbury. New York: Harper, 1983, 546 pp. $22.50.

The candid, very personal and entertaining memoirs of an exciting and distinguished journalist's career beginning in Minnesota in the 1920s and focusing, after 1944, on the Soviet Union. Salisbury's fierce independence and contempt for intolerance, whether in Russia or America, are powerful underlying motifs. There are wonderful portraits of great and notorious characters, such as Al Capone, Huey Long, Stalin and Khrushchev.

CHILD OF CONFLICT: THE KOREAN-AMERICAN RELATIONSHIP, 1943–1953. Edited by Bruce Cumings. Seattle: University of Washington Press, 1983, 352 pp. $22.50.

Original and deeply researched essays on American policy toward Korea by eleven American scholars, including a useful essay on manuscript sources in the National Archives bearing on the subject. The essay by Mark Paul entitled "Diplomacy Delayed: the Atomic Bomb and the Division of Korea, 1945" is particularly good.

PATTERNS IN THE DUST: CHINESE-AMERICAN RELATIONS AND THE RECOGNITION CONTROVERSY, 1949–1950. By Nancy Bernkopf Tucker. New York: Columbia University Press, 1983, 400 pp. $35.00 (paper, $15.00).

A meticulous and very heavily researched monograph which argues that almost every group with an interest in China—missionaries, businessmen, journalists, scholars—favored diplomatic recognition of the new Communist Chinese government in 1949–50. The author deprecates the influence of the China Lobby ("a dedicated few") and opposition in Congress—judgments that sometimes seem at odds with her own evidence. Thus, her conclusion is that recognition was withheld primarily because of excessive caution on the part of the Truman Administration and a low priority given to the whole question. Then, the outbreak of the Korean War slammed the door. The author probably underestimates President Truman's real antipathy to the Beijing regime.

WINDS OF HISTORY: THE GERMAN YEARS OF LUCIUS DUBIGNON CLAY. By John H. Backer. New York: Van Nostrand, 1983, 320 pp. $25.50.

An admiring and informative biographical study of General Clay as deputy and then military governor of the American Zone of Occupation in Germany, 1945–1949. Clay's incisive mind and administrative genius are convincingly portrayed, as is his deep disappointment over never, in a long career, having combat command. The author was a member of Clay's staff and has written extensively on the occupation.

THE SHADOW WARRIORS: O.S.S. AND THE ORIGINS OF THE C.I.A. By Bradley F. Smith. New York: Basic Books, 1983, 507 pp. $20.75.

This may be as close to a definitive medium-length history of OSS as we are likely to get. It draws fully on the extensive original files now available (both

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American and British) and on the recent flood of secondary writing; the only exception appears to be the personal files of General Donovan which formed the basis of the recent Cave Brown biography (reviewed here in the Spring 1983 issue). The author has a sure grasp of the basic history of the war. His narrative chapters put OSS firmly into that wider context, and his perspectives and judgments ring true. And there are excellent chapters on the usually neglected Research and Analysis section and on the relations between OSS and Soviet intelligence agencies (including one particularly striking revelation).

The title, however, may be slightly misleading: the final chapter on the transition from OSS to CIA is by no means exhaustive, especially on the origins of the Agency's role in covert operations. Experts will also note the very limited discussion of OSS counterintelligence work (doubtless because files in this area are still protected), including the failure to mention or deal with recent charges that one British adviser to OSS may have had German or Soviet connections. But these are small matters in an important book.

W.P.B.

CONFLICT OF DUTY: THE U.S. NAVY'S INTELLIGENCE DILEMMA, 1919–1945. By Jeffrey M. Dorwart. Annapolis: U.S. Naval Institute, 1983, 262 pp. $18.95.

This sequel to the author's book on the early years of the Office of Naval Intelligence focuses on the dilemma of whether the Office should go snuffling after alleged domestic subversives (it did) or concentrate on gathering and evaluating information concerning the naval capacity of other nations (which it did, but not well).

The Western Hemisphere

Robert D. Crassweller

THE CUBAN THREAT. By Carla Anne Robbins. New York: McGraw-Hill, 1983, 341 pp. $17.95.

Directed not to Cuban foreign policy per se nor to a current description of the Cuban scene, but to the nature and extent of the danger that Cuba poses to U.S. interests, this study concludes that the threat has been exaggerated by every U.S. Administration and that the U.S. national interest should be defined more precisely. The author is prepared to live with left-of-center regimes in the Caribbean Basin, but her tone is not polemical. Historical background and evolution in Cuban policies are presented with skill.

THE PERUVIAN EXPERIMENT RECONSIDERED. Edited by Cynthia McClintock and Abraham F. Lowenthal. Princeton: Princeton University Press, 1983, 442 pp. $45.00 (paper, $9.95).

These 13 essays are devoted to historical, economic and political perspectives on the Peruvian Revolution of 1968. Most of the contributors find little success in the movement. Abraham Lowenthal, in an overview chapter, looks to modernization and reform as the criteria, and believes positive changes in the structure and distribution of power, and in value patterns, have occurred.

THE NEW BOURGEOISIE AND THE LIMITS OF DEPENDENCY: MINING, CLASS, AND POWER IN "REVOLUTIONARY" PERU. By David G. Becker. Princeton: Princeton University Press, 1983, 419 pp. $35.00 (paper, $9.95).

A long and detailed analysis of "bonanza development," which utilizes a rich

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resource (in this instance, copper) for financial support in conjunction with a new corporate national bourgeoisie of managers and entrepreneurs. The author finds that it has brought visible improvement in the political power and living standards of the working class, upon which socialist hopes ultimately hinge. Writing as a progressive, he strongly attacks dependency theory.

JUAN PERÓN AND THE RESHAPING OF ARGENTINA. Edited by Frederick C. Turner and José Enrique Miguens. Pittsburgh: University of Pittsburgh Press, 1983, 268 pp. $24.95.

One senses the beginnings of a broad reassessment of Perón and his movement, or at least a widening interest in the phenomena. The ten essays and the epilogue in this volume will materially advance the process. The essays serve both historical insight and current concerns, and cover a full range of economic, political and social aspects, including the memorable and unique Evita. A solid and deserving book.

SOLDIERS OF PERÓN: ARGENTINA'S MONTONEROS. By Richard Gillespie. New York: Clarendon Press/Oxford, 1982, 310 pp. $29.95.

This is a very complete and sound history of the roots, rise and fall of the Perónist Left. Interesting and innovative charts in the appendices show the successive splits and mergers of the leftist factions and the Montonero organizational structure at various periods.

Western Europe

Fritz Stern

THE FASCIST CHALLENGE AND THE POLICY OF APPEASEMENT. Edited by Wolfgang J. Mommsen and Lothar Kettenacker. Winchester (Mass.): Allen & Unwin, 1983, 436 pp. $35.00.

Discrete essays by expert scholars on various aspects of appeasement, focusing not on diplomatic action but on the wider context of that still ambiguous policy. New material and new perspectives, concentrating on Britain, but including France and the British dominions, all of whom favored appeasement for their own reasons. The U.S., both as actor and as the object of the appeasers' apprehension, is analyzed, while Lord Beloff argues that the Soviet Union, regardless of rhetoric, pursued its own appeasement policy. These essays, all too briefly introduced by one of the editors, suggest that appeasement was not moral blindness but the sum total of powerful forces in the West that made any other policy almost impossible to execute. A valuable work, a major contribution to a later synthesis.

BRITAIN, EUROPE AND THE WORLD, 1850–1982. By Bernard Porter. Winchester (Mass.): Allen & Unwin, 1983, 173 pp. $19.50.

A spirited, provocative analysis of Britain's diplomacy, based on the premise that statesmen are secondary, compared to the realities of winds and currents and the trim of the ship. Britain's decline was inevitable. Her policy as the "first liberal and mature capitalist polity" was to defend her interests without jeopardizing her unique domestic freedom and laissez-faire economy. Porter sees Britain's reluctant post-1945 entry into NATO and the EEC as an acknowledgement of her final inability to assert or defend her own interests. A book of excessive—that is to say, sometimes specious—clarity, but thoughtful, lucid and informative.

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ATTLEE. By Kenneth Harris. New York: Norton, 1983, 630 pp. $25.00.

A British journalist, originally encouraged and aided by Attlee, has written a good popular biography of Labour's first successful Prime Minister. Harris depicts him as a shrewd, compromising politician, who capitalized on his own weaknesses, but grew in office. Harris sees Indian independence as Attlee's greatest triumph and the failure to solve the Palestine muddle as his greatest failure.

HITLER UND DIE ENDLÖSUNG. By Gerald Fleming. Munich: Limes, 1983, 215 pp. DM. 28.

Hitler's instruments sought to conceal the mass extermination of European Jewry by deceptive language and by carrying out the systematic killing "in night and fog," thus allowing present-day propagandists to question or deny the very occurrence of the Holocaust or of Hitler's involvement in it. A British historian sets forth new evidence that on specific occasions the organizers of the "final solution" invoked Hitler's wish that all Jews be liquidated, a wish that corresponded to his virulent views. An impressive historical account by an author who seeks to bear witness to unspeakable horror and unquestionable culpability.

THE GOEBBELS DIARIES, 1939–1941. Edited and translated by Fred Taylor. New York: Putnam, 1983, 384 pp. $17.95.

A compulsive diarist, convinced apparently that his diaries provided "a picture of my entire life and our times." Neither is correct, but this new selection does give a morbidly fascinating account of the Nazi State at war, of rivalries within the Reich and of total subservience to Hitler. Goebbels shared Hitler's obsessive hatred of the Jews; he crowed over London experiencing "the fate of Carthage" and Bolshevism collapsing like a house of cards. But he was also realistically, almost too apprehensively, attuned to German public opinion and incipient unrest, and proved to be a media genius who manipulated news and moods. Churchill was the most detested and yet admired enemy, without whom Germany would have won the war, and whose stark calls for sacrifice Goebbels finally began copying beginning in 1943.

IN SEARCH OF MODERN PORTUGAL: THE REVOLUTION AND ITS CONSEQUENCES. Edited by Lawrence S. Graham and Douglas L. Wheeler. Madison: University of Wisconsin Press, 1983, 380 pp. $30.00.

A collection of articles by international scholars and writers, including a one-time Portuguese foreign minister, this is a useful, if uneven, introduction to the revolution that was preceded by the gradual weakening of the old dictatorship and the growing opposition within the army. It was an odd and joyous revolution that, after April 1974, first turned radical, then conservative, but that did allow for a transition from repression to democratic freedom. The emphasis is properly on the domestic issues, but the many international ramifications are also analyzed.

The Soviet Union and Eastern Europe

John C. Campbell

AFTER BREZHNEV: SOURCES OF SOVIET CONDUCT IN THE 1980s. Edited by Robert F. Byrnes. Bloomington: Indiana University Press (with the Center for Strategic and International Studies, Georgetown University), 1983, 457 pp. $25.00 (paper, $12.50).

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In 1947, in a relatively short article, George Kennan set the model for a generation of American scholars and public officials on the subject of the sources of Soviet conduct. Now, under the sponsorship of Georgetown University and the guidance of Robert Byrnes, 35 American and British experts have addressed the same subject in this weighty volume. The Soviet Union has changed in the interim, Soviet studies have flourished in the West, and the methods of study have changed, but, while understanding has increased, many of the questions remain unanswered or unanswerable. Nevertheless, this is a very solid work, representing the best in American expertise on the internal affairs and external relations of the U.S.S.R.

SOVIET POLICY FOR THE 1980s. Edited by Archie Brown and Michael Kaser. Bloomington: Indiana University Press, 1983, 282 pp. $19.50.

A British version of the same Western endeavor to see what the new Soviet leadership is up against and what its policies will mean both for Soviet society and for East-West relations. Less ambitious, less comprehensive than the Georgetown volume noted above, it has a corresponding set of stars among its authors and, while still worthy of the careful attention of experts, is easier going for the general reader.

THE SOVIET ECONOMY: TOWARD THE YEAR 2000. Edited by Abram Bergson and Herbert S. Levine. Winchester (Mass.): Allen & Unwin, 1983, 452 pp. $37.50.

This compendium overlaps the economic chapters of the two general surveys noted above, but it carries the investigation further and digs much more deeply into the specific fields of industry, labor, technological progress, agriculture, energy, and foreign economic relations. It highlights the familiar problems and critical choices for the future—reform, resource allocation, etc.—but the volume serves as more than an exercise in forecasting; above all, it is an authoritative description of recent trends and of the state of the Soviet economy today.

THE GRAND STRATEGY OF THE SOVIET UNION. By Edward N. Luttwak. New York: St. Martin's, 1983, 242 pp. $14.95.

As Luttwak sees it, Russia is an expanding empire bound to keep pushing outward and just now, given the combination of its precarious military superiority and its dim economic prospects, entering a new phase of military aggression—witness Afghanistan, with China the likely next victim. The author himself is convinced, if not always convincing. Two substantial studies are appended to Luttwak's short text, one on the economic basis of Soviet power by Herbert Block, the other by W. Seth Carus on the military buildup since 1965.

THE SOVIET UNION AND THE THIRD WORLD: AN ECONOMIC BIND. By Elizabeth Kridl Valkenier. New York: Praeger, 1983, 188 pp. $21.95.

Soviet thinking and policy receives here a more searching inquiry than in most of the literature on U.S.S.R.-Third World relations. In addition to the usual statistical sources and official statements, the author has used all the Soviet professional writing (plus interviews with some of the writers) to illustrate significant differences over time and in content. She identifies trends and contending schools of thought which have impelled the Soviets to adapt theory and political aims to economic reality and the recognition of the limits of Soviet influence. She may overstate her case here and there, but it is important that the case be on the record.

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STALINISM: ITS IMPACT ON RUSSIA AND THE WORLD. Edited by G.R. Urban. London: Temple Smith/New York: St. Martin's, 1982, 454 pp. $25.00.

Interviews with a dozen individuals who had occasion to have an extensive, profound, or perhaps unique knowledge of Stalin or of Stalinism. They make up an unlikely group: a Russian (former secretary to Stalin), a Pole, an Austrian, a Chinese, a Yugoslav (Djilas), two American diplomats (Harriman and Kennan), and a number of Western scholars. They all have interesting, if not always strictly relevant, things to say, and Urban is a skillful interviewer who makes substantial contributions of his own to the dialogue.

KHRUSHCHEV: A BIOGRAPHY. By Roy Medvedev. New York: Doubleday, 1983, 292 pp. $17.95.

In this biography, written in the U.S.S.R. but obviously not publishable there, Nikita Khrushchev is given his due as a statesman who, in a decade of remarkable accomplishment mixed with serious mistakes, initiated and carried through significant changes in the Stalinist system while bringing his country into a more active and powerful role in world politics. Medvedev gives a generally balanced picture, seeking both fairness and truth. In the process he throws new light on several dramatic episodes such as the denunciation of Stalin in 1956, the removal of the "anti-Party" group in 1957, and the final confrontation between Khrushchev and the colleagues who combined to overthrow him in 1964.

POLITICS AND TECHNOLOGY IN THE SOVIET UNION. By Bruce Parrott. Cambridge: MIT Press, 1983, 428 pp. $45.00

Much has been written about the transfer of technology from the West to the U.S.S.R. This book, better than any other, relates the questions of technological advance and transfer to the general political aims of the Soviet leadership as those aims have changed over the years. Parrott follows the continuities and shifts of Soviet policy from the first Five-Year Plan to the mid-1970s, documenting the disputes and debates within the leadership—largely between those he terms "traditionalists" and "nontraditionalists"—and giving the reasons why a long-term technology strategy was never adopted. An impressive book, bound to be a landmark for some time.

THE BALTIC STATES: YEARS OF DEPENDENCE, 1940–1980. By Romauld J. Misiunas and Rein Taagepera. Berkeley: University of California Press, 1983, 334 pp. $27.50.

A chronicle of what has happened to Estonia, Latvia and Lithuania under Nazi and Soviet rule. It is rather skimpy in the use of Soviet sources but very good in bringing to light little-known material in the Baltic languages, mainly Estonian and Lithuanian. The book is particularly strong in describing the notable revival of national cultures since the thaw of the early post-Stalin period.

POLAND: GENESIS OF A REVOLUTION. Edited by Abraham Brumberg. New York: Random House, 1983, 322 pp. $19.95 (paper, $7.95).

If one is seeking a single book that best describes the causes of Poland's eruption in 1980 and the meaning of the 15-month period of semi-freedom which followed, this may be it. Brumberg is an accomplished editor, and the contributing authors include some (L. Kolakowski, W. Brus, A. Smolar, T. Szafar) whose prior experience in Poland gives them special insight into recent events.

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SOLIDARITY: THE ANALYSIS OF A SOCIAL MOVEMENT: POLAND 1980–1981. By Alain Touraine and others. New York: Cambridge University Press, 1983, 203 pp. $19.95.

The great achievement of Solidarity was that it forced acceptance, at least for a time, of what the Soviet Union and the Polish Communist regime found unacceptable. A number of journalists and other observers have already recreated the stirring events of 1980–81. In this book, a scientific research effort carried out by a French sociologist and his colleagues, Poles who took a leading part in the movement are allowed to speak for themselves. The reader, accordingly, can get a sense of the strength and depth of the tidal wave of national and religious feeling of which Solidarity was the institutional expression and the symbol.

THE FIRST YUGOSLAVIA: SEARCH FOR A VIABLE POLITICAL SYSTEM. By Alex N. Dragnich. Stanford: Hoover Press, 1983, 182 pp. $24.95.

Professor Dragnich, who has written on the history of Serbia before World War I and on Communist Yugoslavia since World War II, is admirably qualified to write this story of interwar Yugoslavia. It is that of an experiment in democracy which failed, followed by an experiment in dictatorship and "guided democracy" which also failed, thanks to the "national" or Serb-Croat question, which threw into doubt the very existence of a Yugoslav state and condemned it to paralyzing internal conflict. The book concentrates on politics—the rise and fall of cabinets and the intrigues of politicians—to the virtual exclusion of economics and foreign policy.

The Middle East

John C. Campbell

THE REDEMPTION OF THE UNWANTED: FROM THE LIBERATION OF THE DEATH CAMPS TO THE FOUNDING OF ISRAEL. By Abram Sachar. New York: St. Martin's/Marek, 1983, 320 pp. $19.95.

The former president of Brandeis University tells of the Holocaust, the DP camps, the exodus to Palestine, and the struggles that led to the partition of Palestine and the birth of Israel. With his own views, sympathies and sense of involvement always clear, he has written no desiccated history but a lively narrative hitting the high spots and recounting individual episodes of tragedy, courage, human interest. In dealing with U.S. policy, he makes use of the papers of David Niles, President Truman's assistant, confirming that Niles had a major influence on Truman in determining the policies which were eventually adopted.

THE POLITICS OF INDECISION: ORIGINS AND IMPLICATIONS OF AMERICAN INVOLVEMENT WITH THE PALESTINE PROBLEM. By Dan Tschirgi. New York: Praeger, 1983, 341 pp. $29.95.

America's "involvement" with the Palestine problem in the 1940s was not simply the result of domestic politics or Zionist propaganda, but rather a complexity of contending influences, and the personal styles and proclivities of two presidents (Roosevelt and Truman), with policy often at the mercy of events and global considerations always more important than the pros and cons of the Palestine imbroglio. Dan Tschirgi describes this "politics of indecision" fully and objectively, using the now available material in the U.S. National Archives and the recent works of Evan Wilson and others. Not definitive history—nothing will ever be definitive on this subject—but a first-rate, carefully documented and balanced study.

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SADAT AND BEGIN: THE DOMESTIC POLITICS OF PEACEMAKING. By Melvin A. Friedlander. Boulder (Colo.): Westview Press, 1983, 338 pp. $25.00 (paper).

The declared theme is how Sadat and Begin were helped or hampered in negotiating peace by the requirements of maintaining their political power at home, a factor often overlooked or underestimated. That part of the story sometimes gets lost as the author follows the entire course of negotiation from January 1977 to March 1979, with full coverage of America's role as well. In making his case, Friedlander has a surer hand with Israel than with Egypt, but, all in all, he has given us a balanced book based on careful research.

AFTER THE PALESTINE-ISRAEL WAR: LIMITS TO U.S. AND ISRAELI POLICY. By Khalil Nakhleh and Clifford A. Wright. Belmont (Mass.): Institute of Arab Studies, 1983, 150 pp.

These are two separate essays on the consequences of the 1982 war in Lebanon, with Nakhleh covering Israeli policy and Wright that of the United States. Both are written from an Arab viewpoint, the first to show that Israel has attained only in a limited way the aims with which she went to war, the second to describe the Reagan plan for a negotiated Palestine settlement and its "decline" through opposition and inaction.

THE ISRAELI ARMY. VOL. I: 1948–1973. By Edward N. Luttwak and Daniel Horowitz. Cambridge: Abt Books, 1983, 398 pp. $25.00.

An American military expert and an Israeli scholar/soldier trace the development and accomplishments of the Israeli armed forces from the days of the Haganah to the start of the Yom Kippur war. For the most part, the book is professional and technical—arms, organization, and the strategies and tactics of each successive war in detail. The authors convey the character of the armed forces as the reflection of society; they say less about the role of Israel's extraordinary soldier-statesmen (Allon, Dayan, Rabin *et al.*) in politics. An informed and sympathetic study. The book was originally published in 1975 in Great Britain.

AUTUMN OF FURY: THE ASSASSINATION OF SADAT. By Mohamed Heikal. New York: Random House, 1983, 320 pp. $17.95.

Egypt's best known journalist presents an indictment of Sadat's domestic and international policies, finding his role of superstar of the media purchased at the price of alienation from the Arab world, subordination to American and Israeli strategy, and the corruption, deterioration and repression at home which led fatefully to the conspiracy (described in detail) and the assassination. He disclaims personal animus but is hardly a detached observer, and injects much venom into his narrative. This is, however, a book to be weighed in all future assessments of Sadat's place in history, and has its lessons also for those in the West who did not see what Heikal did or refused to believe what they saw.

THE EGYPT OF NASSER AND SADAT. By John Waterbury. Princeton: Princeton University Press, 1983, 475 pp. $45.00 (paper, $12.50).

John Waterbury, a longtime student of the Arab world who was a reporter for the American Universities Field Staff in Cairo during the 1970s, yields to none in his intimate knowledge of Egyptian politics and economics. This is neither a political history nor a conventional survey of the Egyptian economy but a case study of the structure of society, of the efforts of the Nasser and Sadat regimes to give concrete form to the aims of the revolution, and of the relation

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of economic reform to the politics of survival. It is written by a scholar for scholars, studded with references, tables, definitions of terms, and theoretical debate.

THE ISLAMIC STRUGGLE IN SYRIA. By Dr. Umar F. Abd-Allah. Berkeley (Calif.): Mizan Press, 1983, 300 pp. $24.95.

This publication presents to the world, and particularly to Islamic brother nations (such as Iran, temporarily blinded by false views), the cause of the Syrian Muslim Brotherhood, whose aim is the removal of President Hafez Assad and of the ruling Baath regime in Damascus. It is more than a political tract, however, in that it contains a wealth of information on the origins, history, leadership and aspirations of the Brotherhood. An appendix contains the texts of the Brotherhood manifesto and the program of the "Islamic revolution" in which it is now engaged.

THE TWO YEMENS. By Robin Bidwell. Boulder (Colo.): Westview Press, 1983, 350 pp. $26.00.

The most informative and useful book on Yemen to have appeared in English. After some brief historical background, it follows the course of both Yemeni states from year to year since the 1950s. Bidwell writes for the general reader, avoiding extravagant detail on names and places, but there is detail aplenty on the shifts in alignment, coups and political assassinations that have marked the recent history of both states. For the most part he plays the disinterested observer, except when he deals with U.S. policy and diplomacy; there his dyspepsia is undisguised.

Asia and the Pacific

Donald S. Zagoria

THE GREAT-POWER TRIANGLE AND ASIAN SECURITY. Edited by Raju G.C. Thomas. Lexington (Mass.): Lexington Books, 1983, 200 pp. $22.95.

The focus is the regional strategic consequences arising from the dynamics of the Sino-Soviet-U.S. triangle over the past 30 years. The highlights are Lawrence Ziring's provocative essay on Afghanistan and Stephen P. Cohen's solid commentary on Pakistan. Ziring says that the Soviets are in Afghanistan to stay and, furthermore, want more than to turn Afghanistan into a satellite. They are, he says, determined to reap territorial compensation from their Afghanistan adventure by integrating the Tajik, Turkoman, Uzbek and Kirghiz populations on the Afghan side of the Oxus River with their brethren in Soviet Central Asia. He believes that the Soviets will eventually partition Afghanistan and absorb the north and east portions while allowing Afghanistan to retain the western portion.

AFGHANISTAN'S TWO-PARTY COMMUNISM. By Anthony Arnold. Stanford: Hoover Press, 1983, 260 pp. $10.95 (paper).

The author, a former U.S. intelligence officer, provides a well-documented history of Afghan communism and concludes, contrary to Ziring (above), that the Soviet commitment to remain in Afghanistan is not so firm as is commonly assumed. He thinks the Soviets can be induced to withdraw their forces, but he doesn't say how.

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MAINLAND CHINA, TAIWAN, AND U.S. POLICY. Edited by Hung-mao Tien. Cambridge: Oelgeschlager, 1983, 287 pp. $25.00.

All the contributors here are experts of Chinese origin with widely differing views about the desirable future for China and Taiwan. These include Jo-hsi Chen's review of the Democracy Movement which flourished during the "Peking spring" of 1979, and Chu-yuan Cheng's brief but lucid account of China's prospects for economic modernization. Chen, who is noted for her widely acclaimed *Mayor Yin*, a collection of stories about the Cultural Revolution, argues that the non-official reformist journals which suddenly appeared in 1979–80 all advocated democracy for China but differed over the kind. Some advocated Western-style democracy, while others wanted only to reform China's socialist system because they thought it not practical to challenge the legitimacy of the Chinese Communist Party. She is cautious about the future of reform in China and urges the formation of a non-Party pressure group to push for it.

NEW FRONTIERS IN AMERICAN-EAST ASIAN RELATIONS. Edited by Warren I. Cohen. New York: Columbia University Press, 1983, 294 pp. $30.00 (paper, $15.00).

The most interesting essay in this collection by diplomatic historians probing U.S. relations with East Asia is one written by two historians from China. They describe how, since the normalization of U.S.-Chinese relations, the history of those relations is being reassessed. Now it is being pointed out by Chinese historians that, among the imperialist powers, the United States was the only one that did not occupy Chinese territory. Further, the U.S. "open door" policy "played a definite role in restraining or delaying imperialist aggression against China." And, although American missionaries did have a negative impact, they were also of some educational and medical benefit. The Chinese historians say that, under the new circumstances, "a massive fervor to study Sino-American relations has emerged among students in China."

WHY HAS JAPAN 'SUCCEEDED'?: WESTERN TECHNOLOGY AND THE JAPANESE ETHOS. By Michio Morishima. New York: Cambridge University Press, 1982, 207 pp. $19.95.

Can Max Weber explain Japan? Professor Morishima of the London School of Economics starts out bravely with analyses of Confucianism, Buddhism and Shinto as they have affected Japanese life (and been changed by Japan). He sometimes returns to the theme, but his interesting analytical history of the Japanese economy is much more concerned with other matters—and often quite controversial in its interpretation. At the end, he summarizes the contrasting experience of China and its religions.

W. D.

NORTH KOREA TODAY. Edited by Robert A. Scalapino and Jun-Yop Kim. Berkeley: Institute of East Asian Studies, University of California, 1983, 370 pp.

North Korea remains one of the most secretive, closed, highly militarized totalitarian states in the world today. It is organized around a personality cult carried to such an extreme that all citizens are required to wear a button with the picture of Kim Il-song whenever they appear in public. Yet the future course of North Korea will affect the strategic balance in Northeast Asia and the chances for a stable peace with South Korea. What little is known about the North is meticulously assembled and analyzed in this pioneering volume.

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Africa

Jennifer Seymour Whitaker

SOLDIERS WITHOUT POLITICS: BLACKS IN THE SOUTH AFRICAN ARMED FORCES. By Kenneth W. Grundy. Berkeley: University of California Press, 1983, 302 pp. $24.50.

The blacks in South Africa's Defense Forces—now totalling about eight or nine percent—appear to constitute one cutting edge of a developing government policy of cooptation. In this study, a noted expert on southern Africa takes a close look at their recruitment, training and service in Namibia and the homelands, and their relation to the police (who are now about 50 percent black). Evidently skeptical about the prospect of the black soldiers' loyalty in a large-scale black-white conflict, he focuses instead on the question of the army's role as a paradigm of racial integration and equality, which he sees as being very far from the reality.

UNDER THE SKIN: THE DEATH OF WHITE RHODESIA. By David Caute. Evanston (Ill.): Northwestern University Press, 1983, 446 pp. $19.95.

A British journalist with long experience in Rhodesia assembles a fascinating montage of historical and contemporary (pre-independence) facts and anecdotes, showing the origins of the ultimately self-defeating white Rhodesian posture in the racist certitudes of the 19th century "pioneer" colonizers. Although this reportage does not add much that is new to the outlines of the Rhodesian black-white conflict, the vignettes do enlarge our understanding of the white psychology underlying it.

AN ANATOMY OF GHANAIAN POLITICS. By Naomi Chazan. Boulder (Colo.): Westview Press, 1983, 429 pp. $27.50.

This pioneering study by a political scientist from the Hebrew University probes deeply into the manifestations of political and economic deterioration in post-independence Ghana. Chazan makes a particularly original contribution in describing the ebbing of authority from the state, and the growth and revitalization of largely informal local structures. In her emphasis on the vitality of these alternative productive mechanisms and social associations, the author appears to verge on optimism. Her sketch of how local and state structures might be linked, however, employs a barrage of abstractions to mask apparent confusion (a style which is held in check in the more interesting parts of the book).

REVOLUTION IN NIGERIA: ANOTHER VIEW. By Major-General J.N. Garba. London: Africa Books Limited, 1982, 145 pp.

The former foreign minister of Nigeria and close associate of General Gowon, who was head of state during the Nigerian civil war and its aftermath, writes here with the express intent of refuting a spate of recent books by former Biafran officials. Clearly Garba has an axe to grind—not against the Ibos or Biafrans, but against those of their former leaders who apparently seek to refight the ethnic conflicts which led to the secession and war. While only partly successful in his attempt to refute allegations about northern Nigerian sectionalism, he paints a convincing picture of Gowon's anguished efforts to assuage Ibo wounds and to achieve a compromise which would prevent civil war.

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Janet Rigney

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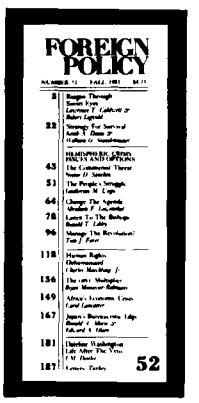

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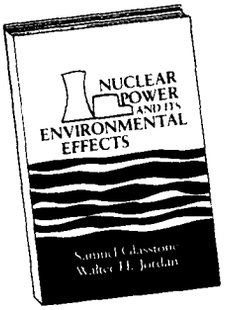

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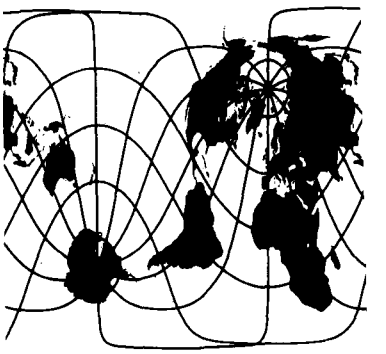

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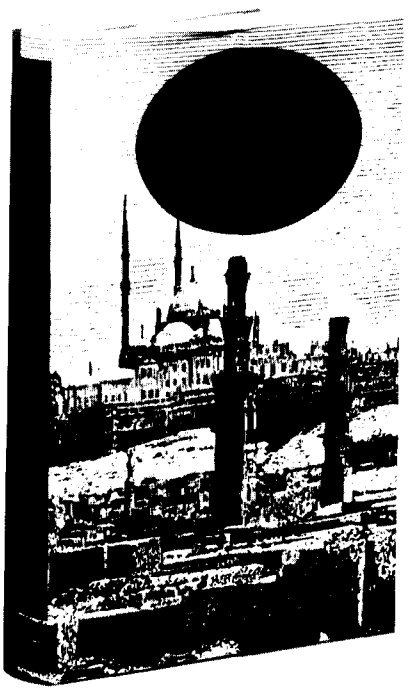

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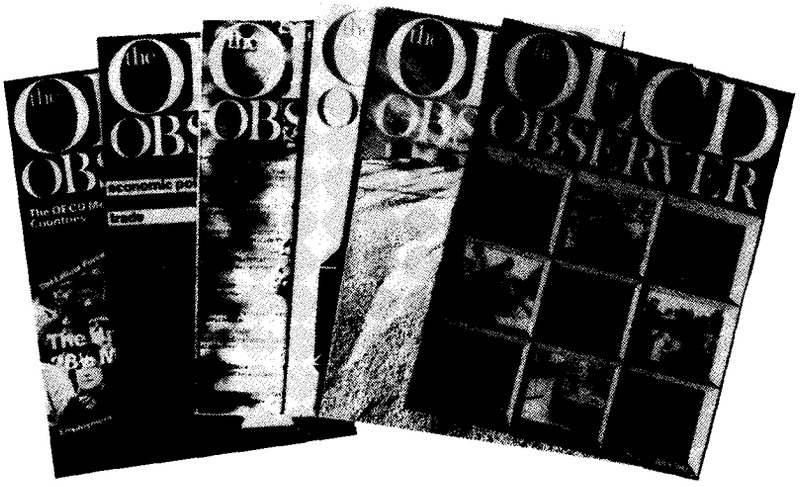

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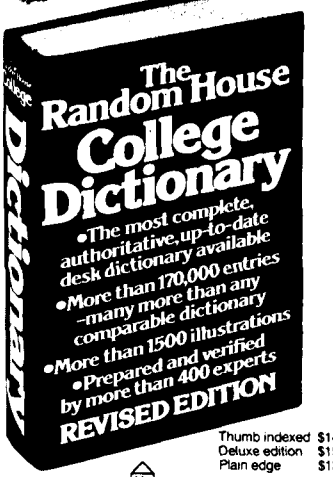
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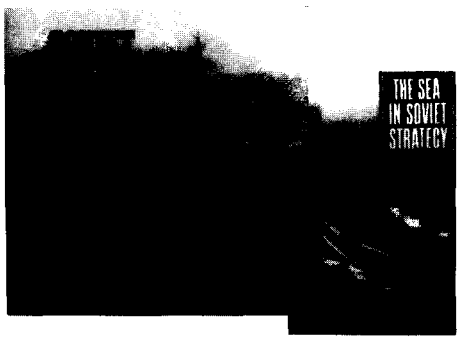

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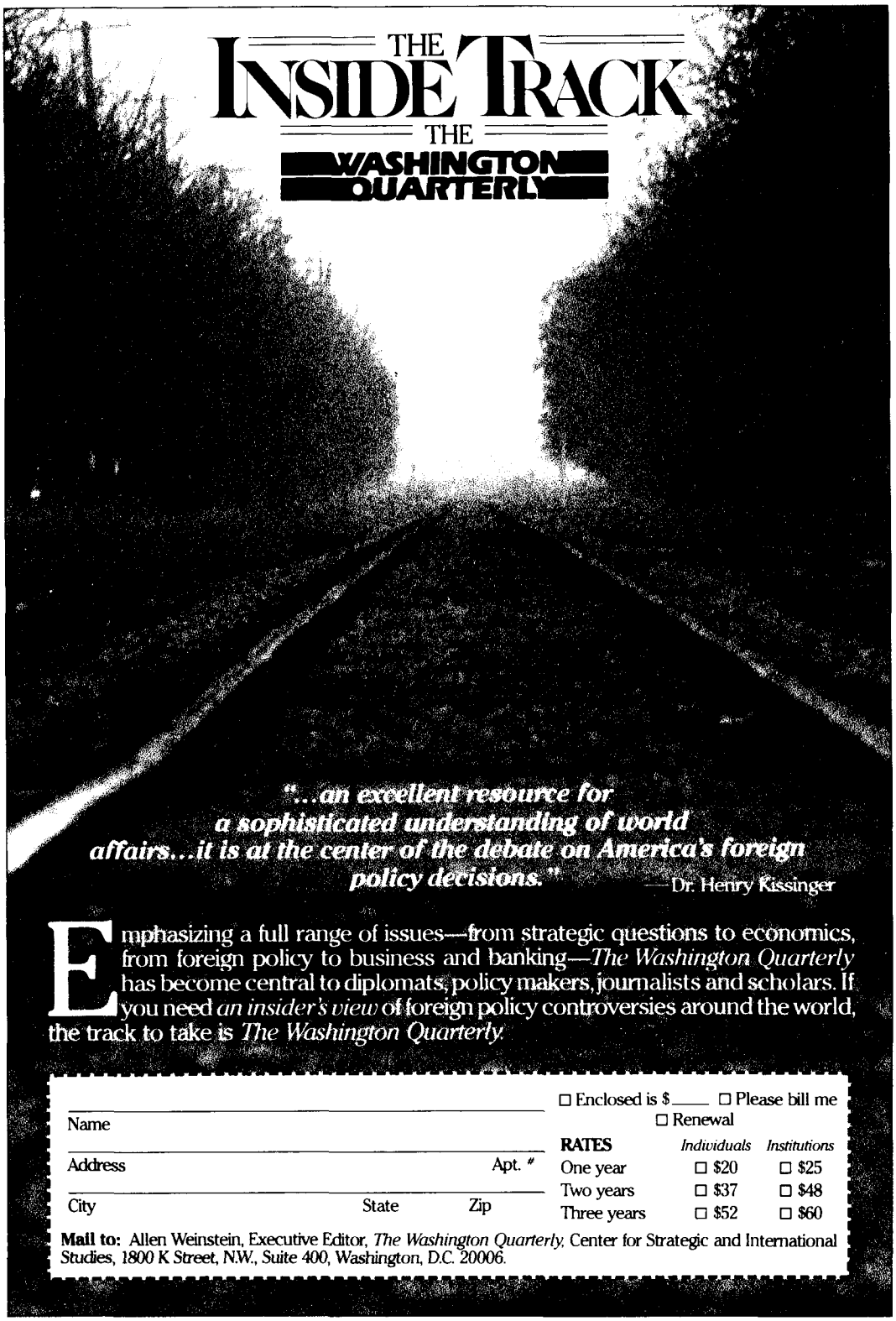
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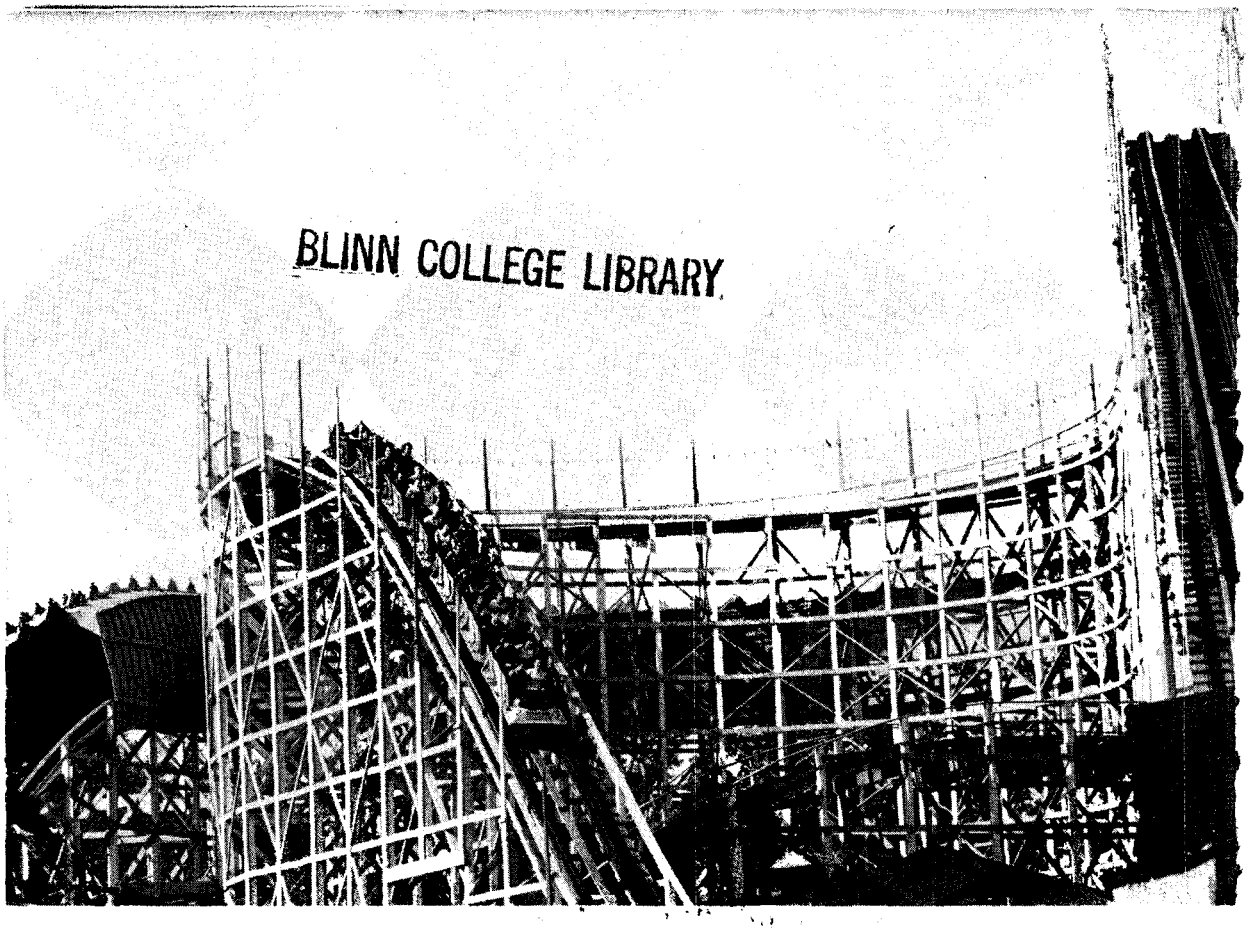
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Up and down, up and down.

When the economic climate is sunny, nations—including America—love to trade with one another. Let a recession set in, though, and they're likely to want protection from the foreign goods flowing into their markets.

Many would argue that trade restrictions and export subsidies at times will permit older industries to modernize and domestic employment to rise, relieving some of the pressure caused by lower-cost competitors.

The record shows differently: Trade restrictions or expensive subsidies seldom, if ever, have had any of those desired results. When a country sets up artificial barriers or inducements to protect inefficient or noncompetitive industries, history records that other countries retaliate with import quotas, tariffs and subsidies of their own.

In the last half century, the world has moved a long way towards free trade and away from protectionism. As a result, the U.S. has profited from free trade, just as the world has profited from trade expansion.

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For example, the General Agreement on Tariffs and Trade (GATT) has led to lower import duties on commodities and other products over three decades. GATT is also the means for governments to settle disputes and gain relief from unfair subsidies, tariffs and quotas.

These international trading rules have by no means solved all trade problems, as recent experience testifies. But U.S. farm exports have flourished under these rules during the past 20 years, and overseas buyers have been able to obtain our farm products at competitive prices.

So before we are tempted to adopt short-term solutions to today's problems, let's remember what free trade has done for U.S. exports—and especially for our farm exports.

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The world's attitude towards free trade looks something like this.

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